

075172

JPRS-JAR-84-001

4 January 1984

# Japan Report

19980304 132

DTIC QUALITY INSPECTED 3

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NATIONAL TECHNICAL  
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U.S. DEPARTMENT OF COMMERCE  
SPRINGFIELD, VA. 22161

DISTRIBUTION STATEMENT A  
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JPRS-JAR-84-001

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4 January 1984

## JAPAN REPORT

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## POLITICAL AND SOCIOLOGICAL

### NEW JSP LEADER DISCUSSES PARTY POLICIES

Tokyo GEKKAN SHAKAITO in Japanese 14 Oct 83 pp 10-19

[Article by Chairman of the Central Committee of the JSP Masatsugu Ishibashi: "General Election Victory and the Party's Revival."]

[Text] Fighting at the Head of the Party

I have just been chosen, with no effort on my part, to succeed Chairman Asukata as Chairman of the Central Executive Committee.

Since leaving the post of Vice Chairman for health reasons last year, I have concentrated my energies on party activities, as a party member and Diet member, while paying attention to my health.

I hold it a great honor that I was recommended by the full Central Executive Committee, then unanimously chosen by the 48th Regular Party Congress.

Since I received this grave responsibility, my thoughts have turned to Chairman Shigesaburo Suzuki and his successors. I have heard the voices of Chairman Suzuki saying, "Youth, don't bear arms," and Chairman Asanuma saying "American imperialism is the common enemy of Japan and China." The faces and accomplishments of Chairmen Kawakami, Sasaki, Katsumata, Narita and now Asukata are burned deeply into my heart. When I think that I must now take up the burden of the Japan Socialist Party, which has built up a brilliant tradition under the leadership of these chairmen, my body tightens under the great responsibility. At the same time, I am resolved that amid the harsh circumstances at home and abroad, we will build for the JSP a new record of which the past chairmen will not be ashamed.

Of course this task is not one to be accomplished just by the resolution of the chairman. It will be possible only with the leadership united and with all party members working together. I will fight at the head of the party. I ask all party members to rouse themselves.

I think what the party needs to do first is to remember the struggle against war, for peace and for the livelihood of the people carried on by the first members of the party. Their footprints remain clear in the history of postwar politics. We need to take great pride in that memory.

The JSP has proclaimed the four principles of peace, and has struggled against the one-sided peace treaty and the Japan-U.S. security treaty. It opposed the LDP government's policy of enmity toward China. Standing in the vanguard of the Japanese people, it has carved deep in the historical record its campaign demanding restoration of relations between Japan and China, its struggle against America's aggressive war against Vietnam, and its struggle for the return of Okinawa to our country.

At the time the LDP government, running along behind America, paid no heed to our demands and adopted policies to suppress the struggle. But what has happened now? The demands of the JSP have the broad support of the people, and have in fact materialized as a matter of practical politics. That demonstrates the correctness of the policies of the JSP. At the same time, it teaches us that the JSP must have firm confidence in its own beliefs, and must pursue them.

#### Recognizing the Correctness of Unarmed Neutrality

We are in very difficult circumstances now, both at home and abroad. The nuclear arms race between the United States and the Soviet Union continues unabated. The recent report of the International Peace Institute in Stockholm warned that unless the nuclear arms race is stopped soon, humanity will pass the point of no return.

Regional conflicts have arisen in Africa, the middle east, Asia and Central America. And on the other hand, hundreds of millions of people are on the verge of starvation with nothing to eat. It is said someone starves to death every two seconds. In such circumstances, the Nakasone government has, since its advent at the end of last year, cooperated fully with the Reagan administration's nuclear strategy against the Soviets, and has pursued policies of constitutional revision and militarism and of suppression of the standard of living. Nakasone started to talk about tearing down the constitution as soon as he became Prime Minister, and he has called 1983 "the year to settle up postwar politics."

Last January he went to South Korea and the United States and made a series of disturbing, even warlike, statements about the shared destiny of Japan and the United States, about the unsinkable aircraft carrier, and about closure of three straits.

These were not mere speeches. He has undertaken defense of sealanes for a thousand nautical miles, and trampled underfoot the Diet resolution on three principles of weapons exports. And with government finances in a shambles, he pushed forward a military budget again in 1984.

More recently he has tried to allow Japanese port calls for the battle ship NEW JERSEY and the atomic aircraft carrier CARL VINSON, which were obviously carrying nuclear weapons.

This clearly sets at naught the three nonnuclear principles which are Japan's national policy; it means making Japan into an American anti-Soviet nuclear base.

And so despite the interpretation of the Legislation Bureau and the consensus of prior governments that Yasukuni Shrine visits are unconstitutional, Prime Minister Nakasone and his cabinet went there together and added precedent for state maintenance of Yasukuni.

With regard to the history textbook issue which became an international and domestic problem last year when shinryaku [invasion] was rewritten as shinshutsu [advance or penetration], the government adopted the public posture of accepting the criticism from China, Korea and the countries of southeast Asia, and restored the word shinryaku. But the system of government approval of textbooks was actually intensified, and long strides were made in the direction of state control. It is clear that the world is hurrying toward darkness like that before the war.

Perhaps the best example of that is what happened on the issue of the site for the recent Japan Teachers' Union congress. People with different views were called "un-Japanese," and right-wing groups used violence to keep a conference of a constitutionally acceptable organization from meeting. And seeing the attitude of the prefectural authorities, who refused to put down the right-wing violence and provide a meeting place, I have to ask if this is really a democracy.

The danger that liberty and democracy will be smothered by the Nakasone cabinet has been clearly exposed.

Unemployment has increased and it is becoming harder and harder for people to survive. The real income of workers has dropped for three years running, household budgets have been cut back, and families have had to resort to second jobs and part-time work.

The efforts of the second LDP committee on administrative reform gave the people the impression the government was economizing. But the truth is that, in the midst of a fiscal crisis in which the national debt exceeded 100 million yen, rationalization and dismissals were carried out to make military spending possible. That is surely more in the direction of militarism and an arms buildup. And it was more than appreciated at the "targetted breakfasts" of President Doko [of the Japan Federation of Economic Organizations].

Medical care for the elderly, which had been free, deteriorated with the introduction of fees under the Nakasone government. And now there are efforts to downgrade health insurance by cutting reimbursement to the insured to 80 percent from 100 percent. They are also trying to cut back the pension system. The demand of the people for tax cuts has been suppressed --although they talk about cutting taxes, they have said nothing about the scope and timing of the cut. To the contrary, they are plotting a large increase in indirect taxation. So while they talk of a tax cut, there will be no tax cut in the true sense. The indirect taxes are cruel ones that plague the low-income masses rather than the rich. These indirect taxes must be definitely stopped.

Every time the LDP government opens its mouth it says that military expenditures have to be held sacred to preserve national security, and that we must therefore accept cuts in education and welfare programs. Well, what about that? Isn't it true that as military spending has swollen year after year and as military preparations have grown stronger and more extensive, the danger of being involved in war has become greater and greater?

Prime Minister Nakasone apparently read my work "Unarmed Neutrality" a little while ago in Karuizawa. Then he adopted the magnanimous posture of trying to distort this party's policy of unarmed neutrality and rationalize it to his own policy of military expansion.

The policy of unarmed neutrality is certainly not a policy of leaving Japan completely exposed to any action others might attempt. It is a policy of securing and maintaining national security and peace through pacific means which do not depend on military force. It is no more and no less than a guideline for making concrete the constitutional provisions for abandoning war and the potential to wage war. The world is now in the atomic age--is it really possible to maintain peace and security for Japan without weapons? With the clamor for reduction of nuclear arms in the international political scene, there is new appreciation for the Peace Constitution. There is, in fact, nothing more dangerous than siding with one of the nuclear countries--the United States, China or the Soviet Union--and making enemies of the others.

The policy of unarmed neutrality does not mean immediately dismantling the military. Japan did have the option of choosing unarmed neutrality once. Even Prime Minister Yoshida clearly rejected "defensive wars," and the people supported renunciation of war and the potential to wage war in the constitution.

But the policy of successive LDP governments to rearm and strengthen Japanese-U.S. security arrangements has cut off the path of unarmed neutrality for Japan, and left us only the path of becoming a military power. And now we hold seventh place among the world's military powers. In such a situation, the immediate task regarding the policy of unarmed neutrality is to choose between the path of cooperating with the Reagan administration's policy of nuclear expansion and making Japan a nuclear base, and the opposite course of nuclear disarmament. That is what we have argued.

### Three urgent tasks

There are, generally speaking, three urgent tasks the JSP must take up in confronting the Nakasone cabinet. The first is to block military expansion. The second is to eliminate money-dominated politics and to establish political ethics. The third is to achieve a major tax cut and preserve the standard of living.

Accomplishment of these three tasks is what the people desire most. It is the duty of the JSP and other opposition parties.



Solidarity among the opposition parties, primarily the JSP, is essential for completion of the tasks. We must make sincere efforts to accomplish that.

As we look at the current political situation, the points of conflict are not at all clear-cut or easily understood. There are, therefore, points not clearly understood by the people of Japan. And so one important matter in the political realm is to make such points "understandable" for the people. Making complex political moves "understandable" will certainly not be easy. But the people will not understand or accept the need for excuses or matters which can be understood only by party people and professionals. If we reflect on the past, the JSP's policies and points of confrontation with the LDP government within Japanese politics are clear. I referred earlier to restoration of relations between Japan and China, the return of Okinawa and opposition to the Vietnamese war; the party's assertions and points of confrontation in these areas are quite clear. These JSP policies had the sympathy of a large part of the people, and the strength of the people was able to turn Japanese politics around.

Lately I have sensed the demise of such a situation. Of course there are clearly points of contention with the LDP government, and the JSP has argued these points.

The JSP supports preservation of the constitution, opposition to nuclear forces, and disarmament in contrast to the LDP's constitutional revision and military expansion. We support reform to benefit the people in contrast to administrative reform and we support democratic education, tax cuts, welfare improvement and maintenance of living standards in contrast to education and welfare cutbacks.

But the people seem not to understand that these are clear decision points where Japan can choose which way to go. There are, of course, many reasons for that. Internationally, for example, there is the confrontation between China and the Soviet Union and resulting disunity within the socialist camp. And within Japan there is the popular tendency to affirm the status quo and stick to the mainstream during periods of high economic growth.

Among the reasons that we must consider now, as a party that seeks political reform, are first, the decline of the JSP's strength as the leading opposition party and, second, the lack of solidarity among opposition parties.

I want to keep these two tasks always in the forefront of party management and political activity.

Humble acceptance of criticism of the party

The JSP has been criticized over and over again. The criticism has included such valuable guidelines for party reform as the "three Narita principles" of Chairman Narita, and the "open party" and the "party as the common property of the people" of Chairman Asukata. The entire party has responded with efforts to overcome faults.

One criticism is that this is a party of internal bickering. Of course there has been a diversification of values, and it is natural that views within the party would differ on how to build socialism in Japan. It is the absence of different views that would be unnatural. But it is necessary to establish party democracy under which disputes are debated, but decisions are followed once they are made by the party organization. Needless to say, it is important to maintain unity and solidarity in the face of severe political struggles. There is no way to prevail in harsh political struggles without unity and solidarity.

I certainly want to insure party democracy, and manage the party on the basis of dominance of the organization.

Another criticism is that the party opposes everything.

We are also criticized as a party that relies on labor unions. Of course labor unions play a leading role as organizations of workers. They have a big role in protecting the rights of workers, improving the standard of living, and opposing war and supporting peace. It is inevitable that the JSP would have a close and cooperative relationship with the labor unions. Nevertheless, political parties and labor unions differ in their natures and functions; it is important to have a cooperative relationship which includes mutual respect for the autonomy of each side. It is not proper cooperation for the party to lead the unions about, nor for the unions to interfere in the party. At the same time, of course, it should be clear that we cannot be a party just of the labor unions.

Only a portion of labor is organized at present, and the numbers of unorganized workers are increasing. The party must pay attention to the treatment of these people, and to their rights and problems.

In real terms, these people are ignored by basic labor laws--they are the moonlighters and part timers who earn the very lowest wages. They are the unorganized workers in the small and poor businesses forced by the big companies to operate under unfair contracts and adverse financing. They are the farmers who suffer from the LDP government's policies of liberalizing agricultural products and of cutting production and producer prices for rice.

The problem of such workers has been hidden under the LDP government's policy of priority to big business. Our party must now find a way to push this problem onto the political stage, protect their rights and improve their standard of living. By creating ties with the broad range of unorganized workers, the party can finally become an "open party" and the "common property of the people."

An understandable, dependable, active party

We can correct faults through positive acceptance of the criticisms of the party listed above. I want to stress three points regarding the proper role of our party.

First, we should become a party that is easy to understand. That means that party guidelines, policies and action should be clear in respect to what we think, what we want, and how we differ from the LDP government. Party propaganda documents and articles in SHAKAI SHIMPO should be easily understood, of course. That will enable the people of Japan to always know what the JSP is thinking and what it wants to do.

Second, the party must be dependable. The biggest factor in gaining the confidence of the people is to be a party which shares their pains and difficulties. As I said earlier, we must build a relationship of cooperation with the unorganized workers as well as with the labor unions. And so we must fulfill our pledges. Let me repeat that it is essential that our words and deeds match and that our daily activity be readily apparent.

Third is that we must become a party of action. There should be no need to restate that point. Handbills should not be distributed only at election time, for example. Flyers on timely political topics and local problems should be distributed all the time. They will have a fresh impact on those who receive them (as they do not at election time), and may generate a sense of closeness to the party.

It is important that elected representatives at all levels, during their campaigns, hold meetings to hear views on national, prefectural and local issues, and that they conduct proper political report meetings. There are legislators and party groups doing those things now; we must learn from their example. Needless to say, daily availability for consultation and intercession is also important.

I have listed three separate items, but of course they are interrelated. From them will be built the people's view of the JSP.

The author Hisashi Inoue said, "the Socialist Party should draw near the citizens; it should come down into our hearts." We must listen carefully to his suggestion.

Our creation of a "citizens' consultation room" is a matter of paying real attention to the advice and suggestions of the people, of intensifying exchanges with the people and creating a relationship of heart to heart contact.

To repeat myself, what is demanded of us now as the leading opposition party is to increase party strength and unite the opposition parties against Nakasone. Further high-handedness cannot be tolerated.

Political parties being what they are, we will argue our respective philosophies and have different policies. That means that achieving solidarity among opposition parties will not be as easy as calling for it.

But at this time of increasing danger of war and pressure on the people's standard of living because of the Nakasone cabinet's policy of priority for

for military affairs, the opposition parties must not divide themselves by just adhering to their individual positions. It is the frank appeal of the people that "the opposition parties unite and take matters in hand" in the spirit of "setting aside minor differences to achieve the common good."

If we repeat the prewar experience of shifting alignment of opposition parties, it will not be possible to effectively confront the military government or to block wars of aggression. This is not a matter of just saying "we oppose war" on looking back at the war that brought such tragedy and sacrifice to Japanese and foreigners alike--such a mistake must not be repeated.

Looking back at postwar history, we opposition parties must admit that the LDP has been allowed to dominate for a long time, and that we have not had the strength to stop their bringing political reactionism and creation of a military power.

In what has been called the 1983 political showdown, we are resolved to learn from the past, consider the present political situation, and bring together the opposition forces to confront the Nakasone cabinet in regard to (1) disarmament and opposition to nuclear weapons, (2) establishment of ethics in politics and opposition to the dominant role of money, (3) tax cuts, welfare and protection of the people's standard of living.

New resolution for all party members

There are two hurdles before us that must be passed. The first is, of course, the battle of the 100th extraordinary session of the Diet, and the second is the battle of the general elections.

There are many important issues pending before the extraordinary Diet session. These include the tax cut issue, the 10·12 Lockheed judgment and the resolution recommending former Prime Minister Tanaka's resignation from the Diet, the National Personnel Authority recommendations, the arbitration judgment, pensions, disaster policy, and also government reform legislation.

Prime Minister Nakasone has already taken the position of "settling up postwar politics," and has challenged opposition parties by saying he would "actively debate the economy, foreign policy, welfare and education in the Diet and let the people decide."

LDP Secretary General Nikaido has also ranked the extraordinary Diet session as a "general election Diet," and has opposed putting a resolution recommending former Prime Minister Tanaka's resignation from the Diet on the agenda of the House of Representatives.

This Diet battle must be one the people can understand easily. It must be a session in which it is crystal clear just who have turned their backs on the people and who are fighting for the people's benefit. Backed by public opinion, we are resolved to bring together the strength of all the opposition parties to achieve a major tax cut and a resolution recommending former Prime Minister Tanaka's resignation from the Diet.

During this battle, we must struggle to put the tempo of fighting in the Diet in the hands of the opposition parties; we must put all our strength into the solutions the people have demanded on the National Personnel Authority recommendations, the arbitration judgment and others. We should mobilize a national campaign which takes the struggle outside the chambers of the Diet. In doing so it is important to have the party and Sohyo [the General Council of Trade Unions of Japan] participate in a movement to cut taxes and establish ethics in politics, not directed just at the central governments but at prefectural and metropolitan governments as well.

I intend to faithfully uphold pledges to the public and to the party, and am resolved to work for a mutual confidence among the opposition parties and try to advance a joint struggle of the opposition parties against Nakasone.

Another point which need hardly be noted is dissolution of the Diet and general elections. This issue was discussed in the 48th national party congress. The chairman's report pointed out that, "dissolution and general elections are expected this year or next spring, but sometime this year must be considered most likely in view of the nature of the Nakasone cabinet and the drafting of next year's budget."

There is no need to say more about the significance of the general elections. This will be the final and deciding battle of the political confrontations of 1983, and the outcome will largely determine the political course of the future. The elections will be a historical watershed in postwar politics.

Our failure in the general elections of June 1980 must not be repeated. The results of the decisive victory of the LDP are all too clear. These include the undisguised moves to revise the constitution, the surge in military spending, the retreat on welfare and reactionary shift in education, the administrative reforms and the suppression of the people's standard of living.

If the LDP is allowed a stable majority in the coming elections, Japanese politics will become all the more reactionary and militarized; it will not be possible to restore Japan at some later date. Without question, the JSP must win this time. Our goal in this election is to create a situation of parity between the ruling and opposition parties, centering on a sharp advance by the JSP.

If that parity is achieved, the LDP will be unable to continue doing whatever it wants. It will be possible to stop the military expansion and military cutbacks of the Nakasone cabinet. Based on that parity, there may well be hope for replacing the LDP government with an innovative coalition government.

Now at a time like this, when the Nakasone government has set Japan on the course to become a military power, we cannot forever remain just a "party of resistance." I think we must renew our determination, seize the confidence of the people, and transform ourselves to a party which can take power.

Campaign management at both the central and the prefectural and metropolitan levels has anticipated defeat. The central and local levels must act as one in this management--let us establish a posture of certain victory, and develop a positive campaign. The slogans "strike first for certain victory," "meticulous preparation" and "gather votes on foot" are basic principles for victory. It won't matter how much we talk about reviving the party unless we can succeed in passing the two hurdles of the extraordinary session of the Diet and the general elections.

Let us renew the resolution of all party members, and advance to victory in the general elections. I will go forward in the lead.

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## ECONOMIC

### BUSINESS LEADERS CONCERN FOR STABLE LEADERSHIP NOTED

Tokyo ZAIKAI TEMBO in Japanese Sep 83 pp 80-82

[Article by Masao Nakase: "Nakasone Stumbling; Financial Leaders Nervous"]

[Text] A stabilized political environment is a necessary remedy to improve the economy. Among those in the financial community, confidence in the Nakasone government is increasing day by day. Hence, leaders in financial circles are aiding long-term political stability from a flank position.

As those in financial circles see it, there has not quite been an upturn in the economy. Furthermore, the opportunity for an economic upturn is dependent on the steering and the management of the economy by the government. Therefore, it is considered that stability in the political situation is most necessary.

Last June, in the election of members for the House of Councillors which was carefully watched by the economic community, the Liberal Democratic Party was victorious. On that occasion, Mr Yoshihiro Inayama, president of the Federation of Economic Organizations, commented: "It is delightful that a window is opening for stabilization of the political situation." Turning from that comment, the leaders in financial circles are keenly interested in the impact of the verdict on Tanaka from the 12 October Lockheed trial, which inevitably will jolt the political situation.

The election of the House of Councillors laid the groundwork for the stabilization of the political power of Prime Minister Nakasone. Enormous concern is being shown as to whether Nakasone will be able to ride the storm caused by the results of the Tanaka verdict and whether he will be able to establish a route for gaining long-term stable power.

In financial circles, criticism of Nakasone was strong even before he took office as prime minister. Compared to Sato and Fukuda (ex-prime ministers), his reputation was inferior; in financial circles he was branded a weathercock or an all-talk-no-work type politician.

Those in financial circles paid attention, as Mr Nakasone began the first stage in forming his cabinet. Apparently he withheld news of the appointment of ex-police personnel as cabinet members while Tanaka was awaiting a verdict in his trial. Later, he appointed Akira Hatano, the superintendent general of

the Metropolitan Police, as minister of the Ministry of Justice and Masaharu Gotoda, former general director of the National Police Agency, as the chief cabinet secretary.

The appointment of ex-police personnel was a bit of a surprise to the economic community. But a leader in financial circles commented: "The prime minister's courage in making those appointments with confidence should be praised and, as the prime minister stated, those newly appointed cabinet members are eager to work." The leader added that performance has yet to be seen. In other words, those in financial circles praised the courage of Prime Minister Nakasone.

Members of the financial circles took a second look at Prime Minister Nakasone's performance when he conducted a series of diplomatic missions. On completing his cabinet appointments, Nakasone visited Korea, the United States and even ASEAN member nations.

Mr Shigeo Nagano, president of the Chamber of Commerce and Industry, expressed the importance of diplomacy for a prime minister even before Nakasone gained power. He, Mr Nagano, mentioned that the prime minister's activity was surprising. It is praiseworthy that he undertook overseas visits after such a short period in office. Any problem can be solved when people consult together. In a period when foreign trade activity has been so weak, Japan's situation could be better understood by the prime minister when he, himself, visited other nations and compared their economic situations to that of Japan. Thus, Mr Nagano's praise enhanced Prime Minister Nakasone's diplomatic development.

The only concern among leaders in financial circles is the speech made by Prime Minister Nakasone while he was in the United States in which he spoke of "an unsinkable aircraft carrier." Although it is accepted that it had to come about, the consensus is that one wrong move may, to a great extent, jeopardize diplomacy. Hence, the economic community wishes that such a speech would be given more careful consideration.

High Praise for Prime Minister Nakasone From Financial Circles, Points to His Readiness for Administrative Reorganization

Mr Tsuchiteru, honorary president of the Federation of Economic Organizations, mentioned that when Mr Nakasone became the director of the Administrative Management Agency, he had been in favor of reorganization. "I hope that this political stance will not be destroyed and that the reorganization will become a reality. It is my wish that the report of the special coordination committee will be faithfully carried out." These comments represent praise of Nakasone's political stance regarding management reorganization.

As Mr Inayama stressed, Mr Nakasone emphasized the need for management reorganization and he was elected prime minister by a landslide vote of the Liberal Democratic Party. The consensus of the party, also, was to promote management reorganization. Since Mr Nakasone promised the reorganization, he must faithfully carry it out. Also it is Prime Minister Nakasone's task to reduce the size of government.



It is feared that an unfair tax law may ignite discontent. At the Nakasone Cabinet meeting of 12 July, it was decided that the estimated budget for the year, 1984, should be cut, for every ministry, by 10 percent as compared to this year's budget. This decision gained attention as an example of management reorganization. It was welcomed by financial leaders. Prime Minister Nakasone's cabinet's readiness to be reorganized has been praised. Mr Hosai Hyuga, director, Sumitomo Metal Industry and president, Kansai Economic Federation, applauded the fact that the budget request package jibes with the 10 percent reduction in expenditure.

Nevertheless, Bunpei Otsuki, president, Japan Federation of Employers' Association, commenting on the extra packages in the budget plan, stated: "A 10 percent reduction is plausible but, because there are many extras, the annual general expenditure will ultimately increase by 0.9 percent." Also he added: "Considering the current status of the economy, it may not be a good idea to tighten the belt further." The economic community will judge the 1984 budget at the end of this year when it has been completed.

Mr Inayama, an advocate of less government, proposed the execution of administrative reorganization together with the introduction of a thorough reform of the unfair tax law. Mr Inayama added the following to the above-mentioned proposal: "The Nakasone government stresses that the people should recognize the importance of a tax increase; however, it is inevitable that there should be a reduction in administrative expenditure." Also he added: "There are strong feelings of discontent with the current tax law and thus, it is the task of the cabinet to reform this unfair tax law."

Incidentally, Nakasone cannot be compared with ex-Prime Minister Eisaku Sato (deceased) who had connections in financial circles, or with ex-Prime Minister Takeo Fukuda whose acquaintances form a roster of influential persons. However, Nakasone has a long political history and its scope is wider than one might expect.

Mr Nakasone's accumulated connections with financial circles have widened through Mr Nagano and Hiroshi Anzai, director, Tokyo Gas Co, Ltd, who introduced Nakasone to KOKIKAI, AKEBONOKAI, NAKIKAI (mostly Mitsui Group) and SANO ECONOMIC KENKYUKAI (association of employers and managers), etc.

Mr Nakasone also has a variety of acquaintances in many fields namely, DOYOKAI which consists of ex-Navy personnel, GYOSHUKAI composed of Shizuoka High School (old system) alumni and WAKASHIOKAI composed of fishery industry personnel.

The leading faction in the financial circles and Mr Nagano were preparing to organize a group called SEIKOKAI even before Mr Nakasone took office.

Since the beginning of the new political regime, a strong relationship has been established between Prime Minister Nakasone and Koro Koyama (Shizuoka High School alumnus) councilor, the Mitsui Bank, Ltd, Noboru Koshima, president, Tokyo Express Railway, Ltd and Ryuzo Seshima, councilor, C. Itoh & Co,

Ltd. Mr Seshima played a leading role in promoting the prime minister's visits to Korea and the United States. The groundwork for the visit to Korea was carried out with lightning speed so that even high-ranking officials in the Ministry of Foreign Affairs were astonished. In return, the visit by Nakasone was a success.

Additionally, Mr Seshima, as special coordination committee member, even aided Mr Domitsu, chairman of the Special Coordination Committee, by coordinating the economic community and government agencies.

Mr Nagano aided in the establishment of a strong connection between Nakasone and Seshima. Earlier, Mr Nagano recommended Mr Seshima as a special adviser to the Tokyo Chamber of Commerce and Industry. Mr Seshima was appointed as replacement for Nagano on the Special Coordination Committee when administrative reorganization was the utmost urgent task during the era of Prime Minister Suzuki. Mr Seshima's role in the Nakasone government is unexpectedly large.

Support for Prime Minister Nakasone by those in financial circles has been developing around a nucleus consisting of the trio (Koyama, Koshima, Seshima) and Inayama, director of the Federation of Economic Organizations. However, leaders in financial circles are concerned about the outcome of both the general election and the Lockheed trial on 12 October.

The leaders in financial circles have been waiting anxiously to see how Prime Minister Nakasone will react to the verdict in Tanaka's trial. Depending upon his response, the Nakasone government may be brought to the verge of collapse. This is the observation of some leaders in financial circles. All in all, enormous attention is focused on the future attitude of Prime Minister Nakasone.

A leader in financial circles commented that the resignation of the defendant, Tanaka, from the Diet may lead to a solution of the problem and added the following: "It is obvious that the defendant is guilty. Prime Minister Nakasone might cope with that decision if Tanaka resigned from the House of Representatives before the verdict. The future of the cabinet is at stake."

One of the influential leaders in financial circles expressed great concern over the reaction of Prime Minister Nakasone to the forthcoming Lockheed trial by saying the following: "In the worst possible situation, the entire cabinet might resign as a reaction to a wrong response by the prime minister to the sentencing of Tanaka. That would result in long-lasting political turmoil which might lead to the postponement, until next year, of the planning for the 1984 budget which would have a great effect on the economy."

Also those in financial circles fear internal dissension may develop in the Liberal Democratic Party depending upon the verdict in the Lockheed trial. While awaiting the verdict, it is unavoidable that the nonmainstream faction will attack the Tanaka-Nakasone mainstream faction. It is feared that there will be a rippling effect from that attack.

The internal dissension in the Liberal Democratic Party, financial circles fear, will be influenced by the dissolution of the House of Representatives and the outcome of the general election. If there is a victory in the House of Councillors and a defeat in the House of Representatives, a complete collapse of the Nakasone government will be inevitable.

No consensus has been formed in the Liberal Democratic Party on a political scenario for the post-Nakasone era. But if there were a consensus it would merely express the maintaining of Nakasone's political power. On the other hand, if there were no successor, a mass resignation would amplify the political turmoil. This is what those in financial circles believe.

Members of the financial circle wish that a general election would be held after the announcement of the verdict in the Lockheed trial in the fall, after the completion of this year's planning for the 1984 budget, and after passage of the budget early next year.

At any rate, financial circles are very much concerned about how Prime Minister Nakasone will cope with the verdict in the Lockheed trial.

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## ECONOMIC

### INTERNATIONAL FINANCE PROBLEMS DISCUSSED

Tokyo FAINANSU in Japanese Jul 83 pp 17-25

[Article by Shigeru Hatakeyama, chief, Research Section, International Finance Bureau: "Various Problems of International Finance"]

[Text] Trend and Background of Yen Rate

The yen exchange rate has remained low during the past 2 years or more. Meanwhile, the fundamentals of the Japanese economy, such as commodity prices and the current balance of accounts which are seen as determining the yen rate, have been steadily improving. It is therefore difficult to explain the low yen of recent years in the light of previous experience. What follows is a brief review of the recent trend in the yen market and a discussion of the reasons for the continuing weak yen.

The Exchange Market behind the Continued Low Yen Rate

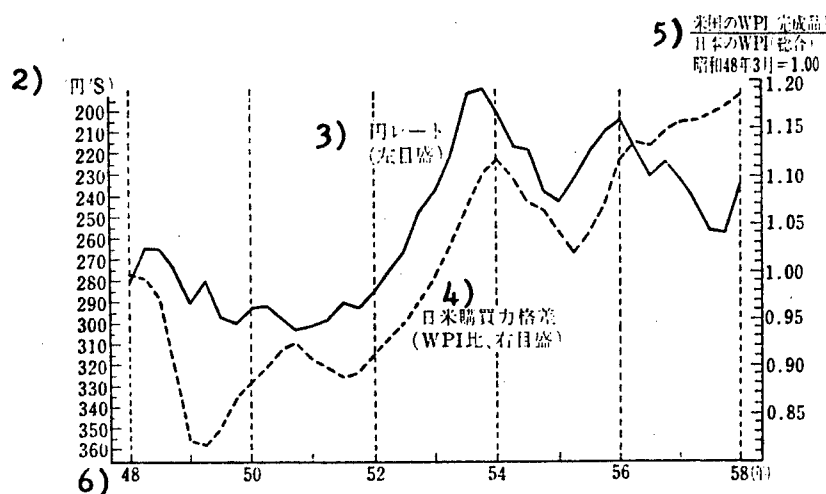
Changes in the recent yen-dollar market, beginning in early 1981, are as follows:

(1981)	January 6	- 199 yen (peak)
	August 3	- 243 yen (bottom)
	November 30	- 214 yen (peak)
(1982)	April 6	- 248 yen (bottom)
	May 12	- 231 yen (peak)
	November 1	- 278 yen (bottom)
(1983)	January 11	- 227 yen (peak)
	July 7	- 239 yen (most recent)

These changes in the yen rate indicate that: 1) during the 2 years after early 1981, there were only 7 months when the yen was in a "high" trend, compared to 17 months when it was in a "low" trend, with the exception of the fluctuation period called the "box market" since the beginning of this year. 2) Compared to the peak in early 1981, the yen rate dropped as much as 28 percent during its bottom period in November 1982, and it is presently 17 percent lower. The yen rate has therefore been low since early 1981, and it cannot be said that sufficient steps have been taken for the recovery of the yen.

From a medium- and long-term standpoint, the economic fundamentals--especially gaps between domestic and foreign commodity price rise rates--have always been seen as key factors in the yen market. In fact, following the transition to the floating-rate system in 1973, movements in the yen rate have generally reflected trends in the commodity price rise rate differentials and the current balance. However, this theory does not explain the yen market after 1981. In other words, as Diagram 1 shows, the difference between the commodity price rise rates in Japan and the United States theoretically should have pushed the yen toward a "high" trend, but in reality the "low" yen trend continued. Also, regarding the current balance, the unprecedented trend of a weak yen under a surplus current balance has continued since the spring of 1981

1) 図1 現実の円相場と購買力平価との比較



- KEY: (1) Comparison between Actual Yen Rates and Purchasing Power Par Values  
 (2) (Yen/Dollar)  
 (3) Yen rate (left scale)  
 (4) Difference between U.S. and Japanese purchasing power (WPI ratio, right scale)  
 (5) U.S. WPI (finished product)  
 Japanese WPI (integrated)  
 March 1973 - 0.00  
 (6) 1973, 1975, 1977, 1979, 1981, 1983

#### Growing Capital Transactions and the Strong Dollar

Why has a weak yen condition continued under the aforementioned favorable fundamentals? Although there are numerous aspects which cannot be explained adequately, they can probably be summarized as follows.

First, as a general backdrop, there is an increasing trend whereby the yen rate is determined by recent capital transactions rather than by current

transactions. There has been a remarkable rise in international capital transactions in recent years, and in Japan's case especially, the trend has been accelerating due to the liberalization of capital transactions since the reform of the foreign exchange law in December 1980. As a result, much of the volume in the foreign exchange market involves capital transactions, while the ratio of current transactions is diminishing. For example, regarding the volume in the Tokyo market in 1982, while the maximum volume of current transactions is established at about \$360 billion (the total amount of exports and imports plus total receipts and disbursements in non-trade transactions), the total volume is huge, including about \$1,200 billion in inter-bank transactions, about \$900 billion in stopgap overseas transactions. (However, these figures include many overlapping sums and are not total sums.) Theoretically, there are also many swap transactions which are deemed to have no impact on the exchange rates, while the capital transactions themselves have a tendency to be influenced by the medium- and long-term market outlook based on commodity prices and the current balance. However, since capital transactions in recent years have often mainly reflected differentials between domestic and foreign interest rates, the actual exchange rate is seen as continuing a trend of diverging from the fundamentals.

Secondly, amid the increasing impact of capital transactions on the exchange rate, the outflow of long-term capital from Japan has increased. The surplus outflow of long-term capital in 1981 and 1982 far surpassed the surplus current balance, resulting in a continuous deficit in the basic balance of payments, and the dollar supply and demand tended to face a dollar shortage. The greatest factor for the increased outflow of long-term capital was the widening gap between domestic and foreign interest rates due to the high U.S. interest rate, to which we will refer later. As a result, the trend of the outflow of Japanese capital began to rise, centering on the increase of securities investment by residents and the procurement of yen capital by nonresidents. As a backdrop for the continuing high-level outflow of Japanese capital, aside from interest rate factors, such factors could be cited as: 1) the rise in direct overseas investment with the increasing internationalization of Japanese enterprises; 2) active procurement of capital by nonresidents from Japan's financial capital market to diversify their capital procurement sources; and 3) efforts by Japan's institutional investors to diversify their use of capital since the liberalization of capital transactions under the reformed foreign exchange law, centering on overseas securities investment.

Third, while it is somewhat similarly logical, it is due to the strength of the dollar. The greatest factor for the strong dollar is the fact that the policy mix of the U.S. Government's financial and fiscal policies has pushed the U.S. interest rate to its highest level. In other words, the United States has continued to relax its financial management, expanding its fiscal deficit on the one hand, while severely and consistently tightening its financial policies in order to control inflation on the other. The U.S. interest rate has, therefore, moved at what may be called abnormally high levels. This has increased the demand for dollar assets, resulting in the strong dollar.

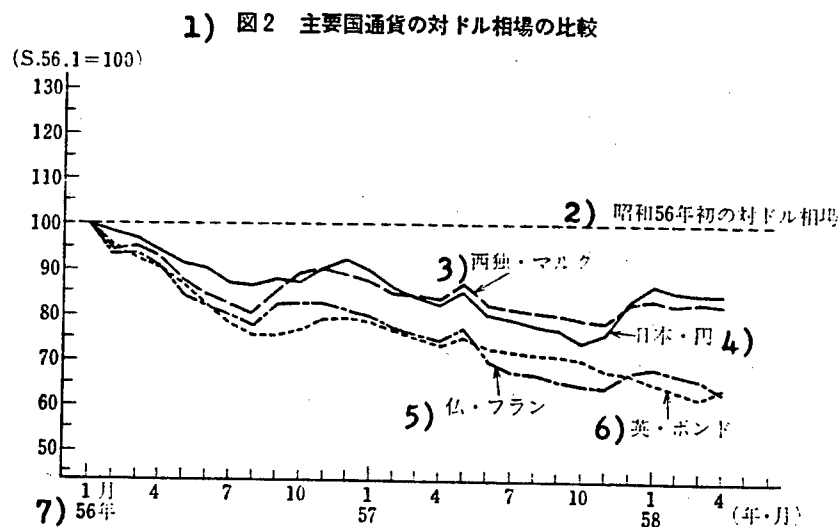
Also, in addition to the high interest rates, an increase in demand for dollars due to the following factors has resulted in the strong dollar.

- 1) Amid the continuing settling of global inflation, international surplus funds which has been invested in gold, goods and real estate were diverted toward financial assets, especially toward high-interest and safe-dollar assets.
- 2) Amid the uncertain international political and economic conditions and greater instability in international finance, the reputation of the dollar gained in value, resulting in larger holdings of the dollar as a refuge currency.
- 3) The developing countries required dollars to repay principal and interest on their accumulating debts.

Furthermore, from a medium- and long-term standpoint, some viewed the period from the 1960s to the 1970s as an era of the "weakening dollar" and the 1980s as an era of the "recovering dollar." Such views have supported a bullish market in some respects.

We have thus far analyzed the reasons for a continuously weak yen under favorable fundamentals. However, we should note here that although the yen has been weak against the dollar, it has not at all been weak against European currencies but on the contrary has become recently strong. In effect, this indicates that the low yen in recent years has been the reverse side of a generally strong dollar against the principal currencies and that the strong dollar with a backdrop of high U.S. interest rates was the most crucial among the aforementioned factors. (See Diagram 2) Regarding the future yen rate also, the dollar factor centering on U.S. interest rates is expected to continue as a major impact for the time being, and it will be necessary to pay attention to elements which influence U.S. interest rates, such as the American deficit budget, the stance of its fiscal policy and its business trends.

Diagram 2



- KEY: (1) Diagram 2--Comparison between Currencies of Principal Countries  
(2) Dollar rate in early 1981  
(3) West German mark  
(4) Japanese yen  
(5) French franc  
(6) British pound  
(7) 1981--January, April, July, October  
1982--January, April, July, October  
1983--January, April

#### Debate on Reappraisal of the Floating-rate System

February of this year marked the 10th anniversary of the floating-rate system. Perhaps because of this milestone, there has been a flurry of debates since the beginning of this year on the reappraisal of the floating-rate system. Following, we will introduce the gist of the various debates and subsequently examine whether it is realistic to adopt a new currency system to replace the floating-rate system.

#### Expectations toward the Floating-rate System and Reality

Between February and March 1973, the currencies of the principal countries of the world adopted the floating-rate system. This step was taken because of unavoidable circumstances, when the postwar international currency system called the Bretton Woods system could no longer be maintained due to a decline in the acceptance of the U.S. dollar, and speculation in foreign exchange concurrently intensified. Under the Bretton Woods system, a fixed-rate system was adopted whereby the U.S. dollar was linked to gold, and the currencies other than the U.S. dollar were tied to the U.S. dollar at a fixed value (par value), with member nations obligated to maintain their own currencies at fixed values. In contrast, under the floating-rate system, the exchange market is left to market decisions based in principle on exchange demand and supply.

There is no particular design or rule under the floating-rate system, and it is highly questionable whether it could be called a currency "system." Nonetheless, there was a strong opinion, centering in academic circles, which welcomed the transition to the floating-rate system. This was due to the view that the floating-rate system had the following merits:

- 1) It automatically balances current accounts through fluctuations in the exchange rate.
- 2) It released fiscal and financial policies from restrictions of the international balance of accounts and from the impact of foreign inflation. It thus increases the degree of freedom.
- 3) Despite minor fluctuations in the exchange rates, there is no possibility that exchange speculation will take place and a broad upheaval (upward and downward) will be inevitable, unlike the situation under fixed rates.



4) Since it is unnecessary to protect unrealistic exchange rates, exchange controls and trade protectionism can be avoided.

Those who advocate a reappraisal of the floating-rate system contend that none of the foregoing merits have been proven during the past 10 years of experience. According to them, the automatic adjustment process of the current balance of accounts has not functioned adequately, and polarized conditions of surplus and deficit have continued for a considerable length of time. Also, the exchange rates have fluctuated repeatedly and broadly over both short and long terms.

As a result, the freedom of fiscal and financial policies has not necessarily been increased, but on the contrary limitations have increased due to concern about the impact on exchange rates. In addition, trade activity has become unsteady due to a rise in exchange rates, while protectionism has not abated at all.

On the other hand, those who defend the floating-rate system contend that the cause for such complaint was excessive expectations toward the floating-rate system and that a calm appraisal would reveal an effective role played by the floating-rate system. They argue as follows. The floating-rate system performed the function of coordinating the current balance through changes in the exchange rates on a medium-term basis. Also, it weakened high-inflation currencies through the establishment of purchasing power par values on a long-term basis on the one hand and stemmed the impact of international inflation by strengthening the currencies of low-inflation countries on the other. As a result, the autonomy of fiscal and financial policies should now be greater in general. In fact, it was the floating-rate system which made it possible to ride out the upheavals in the global economy during the past 10 years, beginning with the two oil crises. If a fixed-rate system had been adopted during this period, frequent currency crises would have occurred, and the exchange market would have fallen repeatedly into great confusion.

In any case, those who are dissatisfied with the floating-rate system have expressed their dissatisfaction and their own theories for reappraisal at various forums. Among them were former U.S. Undersecretary of the Treasury Rossa, former U.S. Secretary of State Kissinger, President Mitterrand of France and other noted personalities. Especially during the Williamsburg summit, President Mitterrand proposed holding a new Bretton Woods conference, whereupon the mass media increasingly took up the debate for a reappraisal of the floating-rate system on a large scale.

#### Is The Adoption of A New Currency System Realistic?

The contention and proposal for a reappraisal of the floating-rate system vary according to the individual. A common proposal is to establish target zones and wider bands to restrict the fluctuations of the exchange rates within a given range. A target zone is a concept to establish a target range of rate fluctuation while maintaining the floating-rate system. A wider band is a concept of returning to the fixed-rate system but increasing

the allowable range of rate fluctuation under the system. Under these systems, the currency controllers have the responsibility of restraining the exchange rates within a given range through intervention.

Is the adoption of such systems then realistically possible? The adoption of these systems under existing conditions is deemed to be extremely difficult due to the following problems.

First, differences between economic performance and economic policies in the various countries should not be very great if stable exchange rates are desired. Although the differences between the inflation rates and economic growth rates in the various countries have recently been diminishing, they are still substantial, and the opinions of principal countries concerning coordination of economic policy do not necessarily agree.

Second, in recent years, the scale of exchange transactions has drastically expanded, mainly on the basis of increased transactions in international capital, and it is extremely difficult to keep rates within a given range merely through intervention and exchange controls. Therefore, there is the danger of an increasing burden being placed on financial policies and other economic policies, resulting in impeding the implementation of mobile domestic policies.

Third, agreement between principal countries concerning the concrete establishment or changes in zone bands is expected to be extremely difficult, and it is questionable whether these systems can actually function.

Fourth, there is the fear that providing a target for speculation to market customers will invite currency instability.

We therefore believe it is realistic and crucial to continue efforts toward stabilizing exchange rates, with the floating-rate system as a premise. It is thus important, first, for the principal countries to devote efforts toward a sound management of their own economies and to strive for harmonious medium- and long-term economic policies, with non-inflationary and continuous growth as their goal. Second, in the case of an uncontrolled rise in exchange rates and excesses, appropriate intervention should probably be carried out, including cooperative intervention. Also, agreements somewhat along these lines were manifested in the recent summit's joint declaration, and it was decided in regard to the reform of the international currency system proposed by France to wait for joint reviews by the finance ministers of the various countries and the IMF board of directors.

#### Problem of Debts Accumulated by Developing Countries

Among the problems of international finance which have drawn attention since last year is the problem of foreign debts by developing countries. As a backdrop to the focus on the foreign debts of developing countries as a problem of international finance, especially at this time, there were among them not only low-income countries but also medium-income countries, which had achieved a certain degree of industrialization but where the problem

had surfaced. There was also the fact that amid the development of international transactions by private financial institutions, loans to developing countries have increased rapidly.

We will now look at the problem of accumulating debts in the developing countries, its present condition and causes and future countermeasures.

### Amount of Debts Incurred by Developing Countries

According to the OECD, the balance of foreign debts incurred by developing countries was estimated at \$626 billion at the end of 1982. However, when we look at the conditions of foreign debts--especially the debts by countries--it is necessary to consider not only the nominal balance of debts but also the economic norms at that time or of the particular country. From this standpoint, the medium- and long-term debt payments of principal and interest for 1 year, divided by the amount of exports for the same period (the so-called debt service ratio), is generally used as an index to gauge the foreign debt of a given country. In the combined non-OPEC developing countries, the ratio was 14 percent in 1973, the year before the first oil shock, and it reached 21 percent in 1981 (according to the IMF estimate). Also, the ratio rose in many Central and South American countries such as Mexico, Brazil and Chile. (See Chart 1.)

Chart 1.

1) 表1 主要開発途上国の債務状況

2) (単位: 億ドル, %)

3) 年 月 末	1981. 12.		1982. 9.	
4) 項 目	5) 銀行借入(注)	6) 中長期 銀行借入	7) デット・ サービス ・レシオ	8) 銀行借入
11) 国 名	5)	6)	7)	8)
メキシコ	569	277	122	60.0
ブラジル	527	183	160	58.0
ベネズエラ	262	161	68	37.0
アルゼンチン	248	116	36	27.0
韓国	199	115	40	16.0
ユーゴスラビア	107	30	9	20.0
フィリピン	105	42	25	45.0
アルジェリア	102	58	20	24.0
インドネシア	84	15	46	36.0
	72	30	27	12.0

12) (資料) BIS, OECD

(注) 西側15か国の民間銀行からの借入れ

- KEY: (1) Debts of Principal Developing Countries  
 (2) Units: \$100 million, %  
 (3) Month (end) and year--December 1981, September 1982  
 (4) Item  
 (5) Bank borrowings (See note.)

- (6) Short-term bank borrowing
- (7) Medium- and long-term
- (8) Payment of principal/interest
- (9) Debt service ratio
- (10) Bank borrowings
- (11) Country--Mexico, Brazil, Venezuela, Argentina, South Korea, Yugoslavia, Chile, Philippines, Algeria, Indonesia
- (12) (Data) BIS, OECD  
(note) Borrowings from commercial banks in 15 Western countries

#### Causes for Foreign Debts of Developing Countries

The two oil crises were probably the direct causes for the debt accumulation problems of developing countries. The oil shocks not only had a negative impact on the current balances of the developing countries, due to increases in payments for oil, but they also had an additional heavy impact due to business recessions in the advanced countries. In other words, stagnation of demand in the advanced countries reduced exports from developing countries. This not only further deteriorated the current balances in developing countries but also dealt a blow to the internal economies of the developing countries. The impact was especially heavy in middle-income countries which had succeeded in industrializing to a certain extent in the mid-1960's, boosted their exports to advanced countries and considerably increased the weight of their domestic economics in comparison to their export industry.

Despite these conditions, the reason the problem did not surface during the first oil shock was of course because of the difference compared to the speed of economic recovery in the advanced countries. Since the economies of the advanced countries recovered rather rapidly during the first oil shock, the recovery of exports by developing countries was also speedy, so that the situation did not deteriorate very much.

In contrast, the recovery of the economies in advanced countries after the second oil shock has been slow, exports by developing countries continue to stagnate and the reform of their current balances has been delayed. In addition, the almost excessive policies for business expansion in a number of countries which suffer from long-term stagnation in their domestic economies not only failed to achieve adequate results but are also resulting in a negative impact on current deficits. Furthermore, following the second oil crisis, the advanced countries have also been implementing policies with an emphasis on inflation control, and the resulting high global interest rates are forcing heavy interest burdens on debtor countries. The cumulative effect of such conditions has resulted in the problem of debt accumulation in developing countries.

#### The Solution to the Debt Accumulation Problem

The debt accumulation problem of developing countries was settled for the time being by appropriate measures taken by the currency authorities and private banks in both debtor and creditor countries as well as by international institutions such as the IMF. However, the huge accumulation remains as a

potential threat to the smooth functioning of international finance systems and the global economy. The following steps will be necessary in the future regarding the debt accumulation problem in developing countries.

First, in the present situation where developing countries bear a huge debt, continued support from private banks and the IMF based on conditionality are necessary in order to prevent a serious problem from arising.

Also, from a medium-term standpoint, economic adjustment by the debtor country itself is most crucial as a countermeasure against current balance deficits. It must not forget to pay attention to its current balance when implementing its domestic economic policies, and it cannot avoid a certain degree of import adjustment under the worst circumstances.

Also, in the case of an advanced country, it must escape from the business stagnation of the advanced countries, which is a key factor of debt accumulation, and strive to cut financial deficits in order to achieve durable growth. This will also result in lower interest rates and ease the burden of the debtor country. It is also important to maintain open markets in the advanced countries and to strive to uphold the free trade system. This will contribute greatly to the solution of the debt problem in developing countries, not only in the sense of promoting the exports of developing countries but also in the sense of activating the global economy through broad and lively trade.

#### Declining Oil Prices and the International Financial Situation

On 14 March 1983, the OPEC emergency general conference decided to lower the standard oil price by \$5 per barrel, and it set the official sale price of Arabian light at \$29 per barrel. This drop in the oil price was generally welcomed as a favorable influence on the global economy and the Japanese economy, leading to a rise in real income through improved trade conditions, improved commodity prices, etc. On the other hand, widespread concern was expressed regarding the impact on international financial conditions, and newspapers and magazines carried frequent articles under the headline: "Reverse oil shock accompanied by fear of international financial uncertainty." In the following, we will introduce some views concerning such fears held at the time.

#### Will OPEC Break Up Its Massive Assets?

Some expressed concern that OPEC's current balance would turn into a deficit and that the OPEC countries would break up the assets they had invested in advanced countries in order to finance their deficits, bringing chaos to the financial markets of the advanced countries. According to estimates by the British and Dutch banks, the balance of the huge operating assets owned by oil-producing countries was \$381.9 billion at the end of September 1982. The fears were thus not without foundation.

However, we believe that for the following reasons the breakup of OPEC assets will probably not be very substantial and that to a certain extent

the breakup will not have a major impact on the financial markets of advanced countries. First of all, the OPEC countries are largely divided into high-absorber countries, which have tight current balances and are in great financial need, and low-absorber countries, which have been spending their oil money. However, there are many high-absorber countries which have already become net debtors and do not have many assets to break up. On the other hand, the low-absorber countries, which hold a majority of OPEC assets, presumably face limited deterioration of current balances and are in little financial need. In effect, the amount of the assets which could be broken up are not deemed to be so large. (See Chart 2.)

Chart 2.

1) 表2 OPECのネット対外資産残高

2) (億ドル)

	1973年	1978	1981	1982 (見通し)	3)
4) アルジェリア	△ 20	△ 106	△ 116	△ 141	
エクアドル	△ 1	△ 8	△ 34	△ 49	
ガボン	△ 3	1	18	21	
インドネシア	△ 43	△ 70	△ 44	△ 77	
イラン	△ 25	233	282	304	
イラク	12	174	306	NA	
ナイジェリア	△ 6	△ 8	△ 35	△ 84	
ベネズエラ	△ 10	△ 17	56	27	
5) H.A. 計	△ 96	199	433	1	
6) カタール	2	53	145	164	
サウジ・アラビア	42	673	1,576	1,601	
アラブ首長国連邦	5	149	387	408	
リビア	22	103	207	168	
クウェート	37	357	791	839	
7) L.A. 計	108	1,335	3,106	3,180	
8) OPEC 計	12	1,535	3,539	3,181	

(注1) 公的準備、証券投資、不動産投資含む。

(注2) イラクについては原注でも不確定要因が大きい旨述べられており、82年の数字は不明とした。

(資料) Bankers Trust Company.

- KEY: (1) OPEC's Net Balance of Foreign Assets  
 (2) (\$100 million)  
 (3) 1982 (forecast)  
 (4) Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Nigeria, Venezuela  
 (5) High-absorber countries total  
 (6) Qatar, Saudi Arabia, Arab Emirates, Libya, Kuwait  
 (7) Low-absorber countries total  
 (8) OPEC total  
 (9) (Note 1) Includes public reserves, securities investment, real estate investment

(Note 2) Regarding Iraq, a major uncertainty factor is mentioned in the original text, and figures for 1982 are unclear.

(Data) Bankers Trust Company

Second, since the dispersed funds will presumably be used to pay off import bills, a considerable portion will conceivably be returned to the banks of advanced countries through the enterprises of those countries.

Third, although the operating assets of the oil-producing countries are huge, their ratio to the total operating assets in the countries where they are invested is limited, and the impact of the breakup is therefore not expected to be so great.

#### Will the Euromarket Be Drastically Reduced?

Some fear was expressed that the current balance of the OPEC countries would turn into a deficit, that the capital flow from OPEC to the Euromarket would diminish or that a breakup of assets would take place and that the Euromarket would be drastically reduced in scale.

However, we believe that the OPEC trend will not greatly reduce the scale of the Euromarket because of the following reasons.

First, OPEC's share as a supplier of funds to the Euromarket was less than 13 percent (at the end of 1982), which is not so large.

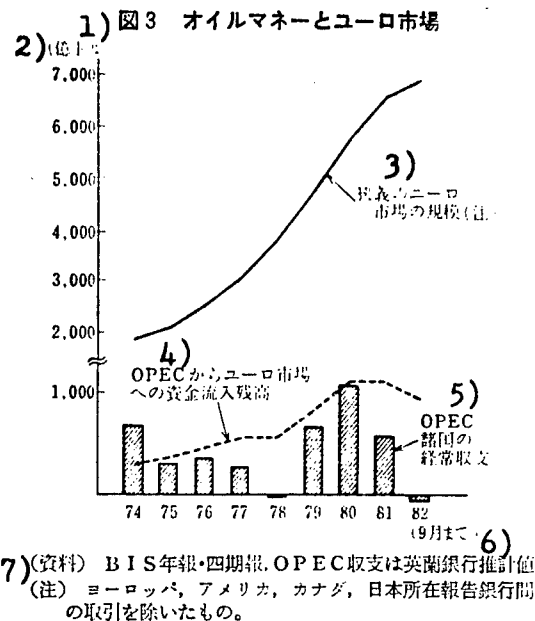
Second, before the second oil crisis, when OPEC's current balance deteriorated markedly and the flow of funds from OPEC to the Euromarket stagnated, the scale of the Euromarket rose by some 25 percent.

Third, the recent trend of the transition of Eurocurrency from the end of 1981 until the end of 1982 shows that the deposits by OPEC into BIS reporting banks declined by some \$21 billion. However, the inflow of funds from the United States, among others, exceeded the outflow of OPEC funds, and the Euromarket has continued to expand. (See Diagram 3, following page.)

The Euromarket is a free market with hardly any controls by the authorities such as exchange control, interest rate control and deposit reserve rates, and it has thus been able to continue its growth. Despite the deterioration of OPEC's current balance due to lower oil prices, there has been no change in the availability of worldwide funds, and this has resulted in a corresponding surplus of funds in the advanced countries. The advantage of the Euromarket as a free market has therefore been maintained, and we believe that as long as the demand for loans from Eurofunds continues, the Euromarket will not be reduced in scale.

#### Will the Problem of the Oil-producing Debtor Countries Become More Serious?

There were some who were concerned that the debt accumulation problem of oil-producing debtor countries such as Mexico, Venezuela, etc., will become increasingly serious due to lower oil prices and will result in a return to international financial uncertainty.



- KEY: (1) Oil Money and the Euromarket  
 (2) Units: \$100 million  
 (3) Scale of Euromarket in a narrow sense (see note)  
 (4) Balance of funds flow from OPEC to the Euromarket  
 (5) Current balances of OPEC countries  
 (6) 1982 (until September)  
 (7) (Data) BIS Annual Report-Quarterly Bulletin; OPEC current balance figures based on estimates by British and Dutch banks

(Note) Excludes transactions between reporting banks in Europe, the United States, Canada and Japan.

However, we believe for the following reasons that, despite a drop of about \$5 per barrel, the debt accumulation problem in these countries will not become overly serious.

First of all, in Mexico today, austere fiscal and financial policies and appropriate exchange policies are being implemented under the watchful eye of the IMF.

Second, the decline in oil export revenues is expected to be offset by a reduced interest payment burden resulting from lower interest payment burdens. For example, in Mexico's case, when the oil price drops \$1 per barrel, its oil export receipts will be reduced by about \$500 million. On the other hand, if the average loan interest rate drops by 1 percent, the interest payment burden will decrease by about \$600 million. The interest rate has already dropped about 3 percent below last year's level, and if this lowering trend continues, the decrease in oil export revenues will be almost totally offset.



## International Balance of Payments and Trade Friction

In recent years, with the long-term business stagnation and rise in unemployment as a backdrop, increasing demands were made by Western countries to Japan for a rectification of its trade imbalances, highlighting the so-called trade friction problem. Trade friction itself does not constitute an international financial problem, but Japan's international balance of payments is often pointed out in connection with trade friction, and the arguments presented are not relevant. We would therefore like to take this occasion to discuss the relationship between international balance of payments and trade friction.

### Trade Balances Should Be Judged Globally, Not Bilaterally

Japan's trade imbalances with the United States and the European Community are often pointed out as the causes of trade friction, and the contention is made that Japan should strive to eradicate the imbalances.

However, such a contention is based on inadequate understanding of the basic premise of the free trade system and presents a danger to the sound growth of the global economy.

Free trade is based on the premise that the production resources of the various countries are more effectively used through international division of labor and that all of the countries involved become richer. Under the free trade system, the trade structures of the various countries differ in accordance with the conditions of their respective resources, the comparative superiority of their structures, their income standards and their geographical conditions. It is therefore only natural for bilateral trade balances to become uneven. Any attempt to force a parity in bilateral trade balances will result in a retrogression of the international division of labor, a reduction of global trade and stagnation of the global economy.

In resource-poor Japan, more than 60 percent of its imports consist of fuel resources such as oil and primary products. Conversely, the majority of its exports consist of industrial products. As a result, in Japan the pattern of trade balances with resource-rich countries like Saudi Arabia, Indonesia and Australia shows a deficit, while it shows a surplus vis-a-vis the European countries and the United States. What is important here is the fact that a considerable portion of Japan's deficit balance vis-a-vis resource-rich countries is used by those countries as payment for imports of food products and industrial products from European countries and the United States.

For example, if Japan were to eradicate its trade imbalances with European countries and the United States, it must drastically cut its import of fuel resources. This reduction of fuel resource imports will result in a reduction of income for the resource-rich countries, for whom Japan is an important export market. Also, because of the reduction of income, the resource-rich countries must inevitably cut down their imports from the European countries and the United States. As a result of this vicious cycle, global trade will suffer and the sound growth of the global economy will be impeded.

It is thus important for the sake of the growth of the global economy to judge trade balances on a global basis and not on a bilateral basis.

Chart 3.

1) 表3 主要国の経常収支とそのGNP (GDP) 比  
2) (単位: 億ドル, %)  
3) (参考)

	4) 本	5) 米	6) 西	7) フ	8) イ	9) 本
	10) 経常収支 比 率	経常収支 比 率	経常収支 比 率	経常収支 比 率	経常収支 比 率	11) 基礎収支
12) 昭和48年	△ 1 △ 0.03	71 0.54	46 1.31	— —	△ 25 △ 1.69	△ 99
49	△ 47 △ 0.99	49 0.15	103 2.59	— —	△ 78 △ 4.61	△ 86
50	△ 7 △ 0.14	183 1.18	40 0.96	— —	△ 31 △ 1.61	△ 10
51	37 0.65	44 0.26	39 0.88	△ 34 △ 1.70	△ 16 △ 0.78	27
52	109 1.54	△ 141 △ 0.74	41 0.79	△ 4 △ 0.78	△ 0 △ 0.02	77
53	165 1.71	△ 148 △ 0.68	90 1.40	70 0.79	20 0.70	41
54	△ 88 △ 0.90	△ 5 △ 0.02	△ 60 △ 0.79	52 0.22	△ 18 △ 0.51	△ 217
55	△ 107 △ 1.09	15 0.06	△ 163 △ 1.99	△ 42 △ 0.64	67 1.51	△ 84
56	48 0.46	45 0.15	△ 73 △ 1.08	△ 47 △ 0.83	121 2.82	△ 49
57	69 0.67	△ 81 △ 0.26	33 0.51	△ 120 △ 2.22	69 —	△ 81

13) (注) 1. フランス、イギリスはGDP比である。  
2. 日本の基礎収支では現先取引を除く。

- KEY: (1) Ratio between Current Balances and the GNP in Principal Countries (GDP)  
(2) (Units: \$100 million, %)  
(3) (Reference)  
(4) Japan  
(5) United States  
(6) West Germany  
(7) France  
(8) Britain  
(9) Japan  
(10) Current balance/ratio  
(11) Basic balance  
(12) (Downward) 1973, 1974, 1975, 1976, 1977, 1978, 1979, 1980, 1981, 1982  
(13) (Notes) 1. GDP ratios shown for France and Britain  
2. Japan's basic balance excludes repurchase transactions.

#### Importance of Current Balances and Basic Balances

With the increasing trend toward services and software in the economy, international economic activity can no longer be limited to trade in commodities, and it is necessary today to think also in terms of trade in services and financial capital transactions.

Trade in services is generally defined as extra-trade transactions from the standpoint of international balance of accounts statistics, and it includes

such items as transportation, insurance, travel, investment income, patent rights user fees, handling charges, advertising costs, communications, technical services, etc. The ratio of service trade to commodity trade reached 36 percent globally in 1980. Also, the ratio of service export to commodity export in the principal countries is only about 35 percent in Japan and West Germany, but 54 percent in the United States and 50 percent in Britain. Judging from the weight of the service trade, it is inadequate to look at international transactions merely in terms of goods, and it is necessary to include services. It is therefore important in considering current balances to include extra-trade balances.

Next, from the standpoint of international balances of accounts statistics, financial capital transactions which are included in long-term capital balances are also extremely important in judging international economic activity. The reason is that a country like Japan, which computes its deficits in terms of its long-term international balance, contributes to the economic progress of its customer countries in various ways through capital exports. For example, Japan's direct investments have increased broadly through the chartering of its companies in diverse countries and active advancement abroad. Japan has thus brought greater employment and higher technological levels to those countries. There has also been a marked increase in yen-based foreign bonds and yen-based syndicated loans. They are a response to the demands for capital procurement overseas which seek low-interest and high-quality funds. In other words, they could be seen as a form of international financial cooperation. Of course, economic cooperation-related capital outflow, such as yen loans and contributions to international assistance agencies, are important to the developing countries.

As we have explained thus far, we believe it is appropriate in discussing the problem of foreign balance of accounts to judge globally, not bilaterally. It is also appropriate to include the service trade in current balances and to base judgment on basic balances, including long-term capital transactions. If we look at Japan's foreign balances from such a standpoint, first of all, its current balance does not show a constant surplus in a medium- and long-term sense. Also, the range of surplus in ratio to the GNP has not been especially large, internationally speaking, during the surplus period. Furthermore, there have been more years during which the basic balance showed a deficit. (See Chart 3.) In conclusion, we believe that Japan's continuing conditions in Japan's foreign balance do not at all deserve any special criticism from foreign countries.

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CSO: 4105/002

## ECONOMIC

### COMPARATIVE ANALYSIS: ECONOMIC GROWTH OF JAPAN, DEVELOPING COUNTRIES

Tokyo SEKAI KEIZAI HYORON in Japanese Sep 83 pp 27-35

[Article by Katsuo Otsuka, researcher at International Development Center:  
"Comparative Research on Japan's Experience and Developing Countries"]

[Text] 1. Point of Contention

#### New Research Field

The corroborative research on the long-term development process of Japan's economy has been making progress year after year and many noteworthy results have come to be published. In the background of this, one can single out the progress in and completion of the publication of "Long-term Economic Statistics: Estimation and Analysis"<sup>1</sup> which is being undertaken under the leadership of the corroborative research group of Hitotsubashi University. With the successive publication of this statistical series, it has become possible to utilize basic statistical data for the work of corroborative analysis. Also, the patterns and mechanisms of economic development since the Meiji era have been brought to light.

The progress in corroborative elucidation, with quantitative supporting data, of Japan's economic development process has led to the initiation of research attempts focused on the question of how does Japan's economic development process resemble with or differ from that of the developing countries.

For example in 1975, the International Development Center, a juridical foundation, under the leadership of professor-emeritus (Katsutsumi) Okawa of Hitotsubashi University launched the project called "Comparative Analysis of Japan's Experience and the Developing Countries" (referred to as the CA Project from the abbreviation of Comparative Analysis). This project, conceived as a joint effort with the Growth Center of America's Yale University, sponsored three international conferences and held numerous research meetings, and has progressed to a point where new research results are now being published.<sup>2</sup> The CA Project lasted for about 8 years up until quite recently.

Professor Okawa, the principal leader of the CA Project, is a corroborative researcher who, while still an active member of the faculty at Hitotsubashi University, initiated the project called "Long-term Economic Statistics"

jointly with other professors such as (Mitsudaira) Shinohara and Mataji Umemura. On the basis of the analytical results of the long-term development process of Japan's economy, an attempt has been made to undertake a comparative study vis-a-vis developing countries. The research results of the CA Project will serve as a useful hint to the question of what kind of a lesson can today's developing countries draw from Japan's experience.

While the new research labeled comparative analysis of Japan and developing countries was in progress, Professor Chu Chong-hwan of Tongkok University in the ROK published a contentious thesis. Entitled "Development Strategy of Developing Countries and Japan's Experience--A Few Questions Concerning the Development Theory of Professor (Kazumori) Okawa," the thesis appeared in the December 1982 issue of the SEKAI KEIZAI HYORON.

In the thesis Professor Chu unfolded his own thoughts while raising questions and criticism against Professor Okawa's recent research. This being the case, a direct response by Professor Okawa to Professor Chu's questions and criticism will bring the point of contention into a sharper focus and a heated controversy will presumably ensue.

At the International Development Center, I have been involved in the comparative analysis as a participating member of the CA Project. My association with Professor Okawa goes back to the days at Hitotsubashi University and for a long time since then I have received research guidance from him and have had the good fortune to continue to deepen my relationship with him to date.

Nevertheless, my decision to write this article was in no way motivated by a desire to present answers to Professor Chu in behalf of Professor Okawa. To begin with, it is simply impossible for a novice like me to even attempt such an audacious undertaking. Not once have I even discussed Professor Chu's thesis with Professor Okawa.

Professor Chu's thesis served as a turning point for me to review the basic nature of the academic research I am undertaking and to think about its validity as well as inherent tasks. It turned out to be a good opportunity for me to take a break in the research and to take another good look at myself. What prompted me to write this article was my desire to clarify my own thoughts, which I was able to reaffirm after reading Professor Chu's thesis, and to venture to solicit criticism from the readers.

#### Questions for Professor Chu

Prior to the publication of the aforementioned thesis, Professor Chu had presented some of his views concerning Japan's economic development in the article entitled "Regarding the Fundamental Viewpoint of the Development Economics," which was also carried by the SEKAI KEIZAI HYORON (August 1982 issue).

At this point, I would like to sort out Professor Chu's views and questions as presented in the two theses.

First of all, Professor Chu gives Japan's experience a positive evaluation with the following words: "Throughout Asia, Africa, Central and South Americas, no country other than Japan has accomplished the switchover from the premodern era to the modern era in such a short time and in so successful a manner. In this respect, Japan is a good model of economic development for the developing countries."<sup>3</sup> He, then emphasized the role of economists by adding, "Japan's economists should be able to help the developing countries greatly by presenting to them Japan's experience in economic development."<sup>4</sup>

The intent here is to present an aspect of Japan's experience to the developing countries and how it can be guided into an effective lesson. Professor Chu's view regarding this point boils down to the following passage: "Japan's prewar economy was a history of failure. It is its postwar economy that has been a process of success. What needs to be learned from the standpoint of developing countries is none other than this process of success in the postwar era."<sup>5</sup> In other words, his is the view that only the postwar development process of Japanese economy can be an effective lesson for today's developing countries. Cited as the fundamental factors responsible for the "postwar success" are "the Peace Constitution and the three major reforms (the agrarian reform, the dissolution of zaibatsu, and the fostering of labor unions) which led to the rise in the income level of the general public and the development of domestic markets."<sup>6</sup> This is the perception that the transformation into a society of "peace and democracy" has been the decisive factor for the postwar high economic development.

Then, what is the prewar economy of Japan as understood by Professor Chu? He wrote: "To the best of my understanding, prewar Japan resorted to a land tax revision to build a petty farming structure based on the semifeudal, high-rent tenant farming system, and, at the sacrifice of farmers who comprised the majority of the people, promoted industrialization by means of fostering bureaucratic monopoly capital in collusion with the government power. The parallel existence of capitalistic, high-level monopoly on the one hand and the premodern agriculture, cottage industry and small business on the other, and the resulting dual structure of the economy--this was the economic structure of prewar Japan. The poverty of farmers prescribed the wage level of urban workers and this in turn produced a prevailing vicious cycle of poverty, [portion of text omitted] Japan's capitalism, unable to escape from the vicious cycle of poverty and its constraints on the domestic market, finally moved from the export-dependent externally-oriented policy to an open indulgence in armed aggressions."<sup>7</sup> This is the view that there is nothing for the developing countries to learn from Japan's historical process--the process that had driven Japan, with its "so-called social dumping rooted in the rural poverty and the 'sub-India' level of industrial wage prescribed by the rural poverty,"<sup>8</sup> into invading the markets of Korea and China and, eventually, into colonial domination by military forces.

Professor Chu declares: "The prewar model causes a thousand evils and no good."<sup>9</sup> He rejects the prewar model characterized by its "dual structure caused by a vicious cycle of structural poverty" and by its emphasis on "national prosperity and defense, calling for an externally-oriented posture and military expansion at the sacrifice of farmers and workers," and he concludes that the "peace

and democracy"-based "postwar model is indeed the way to true economic development"<sup>10</sup> and that its application to the developing countries is desirable.

Through his writings such as "Economic Development and Japan's Experience,"<sup>11</sup> Professor Okawa has developed his own research and views regarding Japan's experience and today's development problem. These, however, had now come under the following criticism by Professor Chu.<sup>12</sup>

The first point of the criticism is that Professor Okawa is underestimating "the significance of the changes in the reproduction structure of Japanese economy resulting from the postwar economic reform." Some time ago Professor Okawa undertook an analysis of the growth phases of Japan's economy,<sup>13</sup> and proposed that the phases be divided into the 1st phase (from 1868 through 1905), the 2d phase (from 1906 through 1952) and the 3d phase (from 1953 on). In the view of Professor Chu, the 2d phase that begins in 1906 must be closed off at 1945. The reason is that the economic structure before and after the war is entirely different "qualitatively."

The second point, which is somewhat related to the first point, questions the validity of Professor Okawa's approach of viewing the change in capital formation rate as the prime factor underlying the "noncontinuity" in Japan's modern economic growth process. Professor Okawa, based on his analysis, explains that major changes in the investment (capital formation) rate have led to upturn and downturn waves in Japanese economy and have triggered the transition from one phase to another in a noncontinuous growth pattern. According to Professor Chu, however, the noncontinuity remains unexplained so long as "the root cause that affected the change in the capital formation rate" is left unprobed. Put differently, this is a criticism that, instead of a quantitative analysis of things such as investment rate, a qualitative analysis should be undertaken in order to explain "the root cause."

The third point raises doubts as to whether or not Professor Okawa recognizes the "noncontinuity" in Japan's economic growth. This is the criticism of Professor Okawa for his inconsistency, in that he recognizes the noncontinuity in some of his writings while in others he emphasizes the "continuity."

According to Professor Chu's observation, even assuming that Professor Okawa acknowledges the quantitative "noncontinuity," basically his view is rooted in the "continuity theory" which does not recognize any qualitative difference between the prewar and the postwar Japanese economy. Such a view would be in complete discord with Professor Chu, who advocates the "noncontinuity theory."

Further, the fourth point is that Professor Okawa is mixed up in his understanding of the notions of the traditional "man's social behavior pattern" and the traditional "social structure." According to Professor Chu's view, the traditional "social structure" means "feudalistic social structure." Consequently, "to say that modernization should be pushed ahead while maintaining the traditional social structure is tantamount to saying that modernization should be carried forward while preserving the premodern social structure." The point here is that, although the traditional "man's behavior pattern" could play a positive role in a move toward modernization, the traditional

"social structure" is a retrogressive factor in modernization or democratization, and that, therefore, the two notions must be differentiated clearly.

The central point of Professor Chu's questions and criticism directed to Professor Okawa is that Professor Okawa has ignored (or belittled) the qualitative analysis and has come to perceive the post-Meiji economic development process as a continuous development process based on a quantitative analysis. In the view of Professor Chu, it is a matter of vital importance whether one accepts the continuity theory or the noncontinuity theory concerning Japan's prewar and postwar economy. His reason is explained in the following passage: "Should one accept the premise that there is a qualitative continuity between the prewar and the postwar economy and that their difference is limited to one of quantitative nature, a conclusion could be drawn that the developing countries should start out with a prewar model economy with emphasis on national prosperity and defense, calling for an externally-oriented posture and military expansion at the sacrifice of farmers and workers, and should wait for the conditions to become ripe before making gradual transition to an economic structure of Japan's postwar model. By contrast, if one accepted the view that there are noncontinuity and qualitative difference in Japan's prewar and postwar economic structures, this would lead to a conclusion that it would be difficult to achieve anything approaching the economic prosperity of postwar Japan."<sup>14</sup>

Can Professor Chu's questions and criticism be regarded as reasonable? Are they suggesting a new research theme for the field of corroborative study of Japan's economy? Before pursuing these points, I wish to review the history to date of the corroborative research on Japan's economic development process. Such a review will further clarify the points at issue or of contention and will define the perceptual differences between Professors Okawa and Chu.

## 2. Progress in Corroborative Research on Japan's Economy

### Significance of Debate on Capitalism

Once in Japan, there was a debate over capitalism among Marxist economists and economic historians. The very origin of the debate goes back to a strategy dispute of the 1920's, when the communist movement was on the rise, over the question of what form of political action movement should be adopted. In those days (from the second half of the 1920's through the first half of the 1930's), there were two sharply conflicting views concerning revolutionary strategy.

One school insisted that, although a new political system was established as a result of the Meiji Restoration, it was not a birth of a modern state brought about by true bourgeois revolution but merely a changeover to an autocratic system called Tennoism (reorganization from a feudal system to autocracy). They further pointed out that strong feudalistic elements remained even after the Meiji era and were still continuing to exist at that time. For this reason, for the revolutionary strategy to be adopted they advocated a two-stage continuous revolution thesis calling for a bourgeois democratic



revolution first to be followed by a socialist revolution. This was the view of those who belonged to (or were otherwise related to) the group known as Koza-ha [the Lecture Faction].

On the other hand, those who belonged to Rono-ha [the Laborers and Farmers Faction] argued that the state emerged from the Meiji Restoration, despite the presence of the remnants of the feudal system, was clearly a bourgeois modern state based on bourgeois monarchism (Tennoism). This view inevitably leads to the conclusion that the revolutionary strategy to be aspired should aim at one-stage revolution, moving from the developing capitalism directly to socialism.

The pivotal point that divided the strategy dispute over the choice of two-stage or one-stage revolution was the difference in how one perceived the Meiji Restoration reform and how one recognized the reality of Japan's capitalism at that time. The dispute between Koza-ha and Rono-ha (the debate on Japan's capitalism<sup>15</sup>) evolved with the involvement of many Marxist economists and economic historians. This dispute, after a temporary halt during World War II, resumed in the postwar era.

My reason for mentioning in this article the debate on Japan's capitalism is based on my interest in the fact that it was during the course of this debate that a corroborative research on Japan's economy was attempted for the first time in Japan. According to the research by Koza-ha, the traditional landlord system was preserved even after the establishment of the Meiji administration and a semifeudal land ownership system created by noneconomic pressure still remained. The worker's wage was suppressed to a sub-India level, and farmers were subjected to semislavish poverty under the high-interest tenant farming system. These analytical results evoked questions and criticism by those of Rono-ha, who actively initiated corroborative research in search of historical truth.

Especially since World War II, mostly from among the economists of the Rono-ha lineage involved in economic policy formulation and industrial research, many noteworthy corroborative research results have been published. Mr Hiromi Arisawa was their central leader.<sup>16</sup>

Nevertheless, it was difficult to explain objectively and convincingly the economic development of Japan through the corroborative research undertaken by Marxist economists and economic historians (hereafter referred to as Marxist economic scholars). Understandably they were too enmeshed in Marxist methodology and dogma. Consequently, they were unable to learn sufficiently the analytical method of hypothesizing a certain theoretical framework (model) for analytical verification based on objective statistical data.

For a corroborative research to merit objective support and to be convincing, it must be free of ideology and dogma. Also, an effort must be made to use an operational analytical method based on as objective data as possible. A research effort marked by aimless free display of concepts and terms which cannot be corroborated will have no bearings on the advancement of scholarship.

The corroborative research launched by Marxist economic scholars in the course of the capitalism debate, although it had some significance in its own way (such as suggesting a new research theme), fell short of explaining the economic development of Japan. Its free use, one after another, of such peculiar phrases as "semislave wage level" and "semislave-farmer's tenant rent," and its one-dimensional, descriptive and arbitrary kind of analysis render it impossible to be considered as having brought any historical truth to light.

It was the postwar corroborative research undertaken by the researchers who studied modern economics and who were well versed in the statistical analytical method (hereafter referred to as the modern economic scholars) that served to notably improve the standard of the corroborative research on Japan's economy. Of that category, the particular research done by the "Long-term Economic Statistics" group with Professor Okawa as the leader has accomplished a pioneering role in opening up a new horizon in the research of Japan's economy.

#### Corroborative Research by Hitotsubashi University Group

The preparatory work and analysis for the "Long-term Economic Statistics" project began in the first half of the 1950's. To date, 11 out of the total 14-volume works have been published. A monumental work it is, indeed, spanning a period of 30 years!

In launching the collection and analysis of quantitative data, the corroborative research group of Hitotsubashi University established a universal theoretical framework. In sum, it was to clarify the production, distribution and expenditure structures based on the national income accounting system. In grouping the industries, not only an effort was made to illuminate the macro aspect of the economy as a whole but the movement of individual industries such as agriculture and manufacturing was selected as the subject for analysis. The observation period covered from the initial period (early part of the Meiji era) of the modern economic growth till quite recently.

What could be the significance of the corroborative research undertaken by the Hitotsubashi University group? There would be varied answers to this question. Personally, I believe the significance lies in the fact that it provided an objective explanation, backed by statistics, of the long-term development process of Japan's economy, and that it served as the starting point of a marked improvement in the progress of subsequent corroborative research efforts. That it used traditional and neutral concepts that are commonly recognizable and usable by anyone; that it presented an objective and operational basic analytical index called quantitative data; that it enabled an observation of the macro aspect of the development process spanning nearly a century, etc., etc.--no one would deny the significance of these facts. Certain historical facts, which the Marxist economic scholars of the past had been unable to illuminate through their fragmentary analysis, have been brought to light, one after the other, by these corroborative researchers of the Hitotsubashi University group.

## Quantitative Analysis and Qualitative Analysis

It would be possible to criticize, in this and that way, the corroborative research done by the Hitotsubashi University group--that it ignored analysis of qualitative elements; that it belittled the analysis of those portions swelling out of the framework of the national income accounting system; and so forth.

Often, the Marxist economic scholars are said to have the characteristics of showing a strong interest in qualitative factors such as changes in economic system or structure and attaching importance to the analysis of those factors. It is meant that these are advantages of the Marxist economic scholars.<sup>17</sup> By contrast, the modern economic scholars are criticized for relying entirely on quantitative analysis based on the econometric analytical method and not studying qualitative factors. Professor Chu's criticism of Professor Okawa is indeed a typical example of such criticism.

I have considerable doubts about the degree of significance of a debate over the question of whether something is "quantitative" or "qualitative." I cannot imagine that this point of argument will be of such importance as alleged by Professor Chu in undertaking a corroborative analysis. The criticism that modern economic scholars ignore qualitative factors rises from utter ignorance. Throughout his many years of corroborative research, Professor Okawa has not only demonstrated a keen interest in but also made a thorough analysis of changes in industrial structure or technology. His is a fine example of analyzing "qualitative" factors. To describe such things as changes in political systems of man's behavioral pattern is not the only qualitative analysis. On the contrary, a qualitative analysis limited to describing fragments of history without presenting statistical substantiation can hardly be called a convincing and objective corroborative research.

Interestingly, Professor Chu's aforementioned perception of the prewar Japanese economy is exactly the same as the Koza-ha's contention. Does Professor Chu believe even today, with all the advancement made in the corroborative research on Japan's economy, that the results of the old analysis made by Koza-ha still hold truth? Just when, by whom and based on what data and analytical method were opinions such as "sub-Indian wage level" verified? Having freely used terms such as "semifeudal" and "high-level monopoly," Professor Chu is obviously convinced that he has explained the qualitative changes in Japan's economy, but to what extent have these notions been strictly defined, and have these facts been objectively substantiated? It is my understanding that one of the reasons why Professor Okawa and his group initiated the corroborative research was their realization that the analysis done before them by the Marxist economic scholars had failed to explain objectively the development process of Japan's economy. It was, I believe, their realization that chattering must stop on topics such as the nature of the Meiji Restoration or whether or not the existing conditions were semifeudalistic, and that it was essential to collect data in a sober manner and to uncover objective realities by the use of analytical framework and method that are divorced from ideology and dogma.

Professor Chu criticizes Professor Okawa's corroborative research as being a quantitative analysis and as having perceived continuity between the prewar and the postwar economy of Japan. If he wants to stand on these charges, he ought to clearly define "quantity" and "quality," and he should also establish his own general analytical framework to examine historical truths.

He may argue that the emergence of "peace and democracy" was the fountainhead of the postwar high rate of economic growth, but it does not clarify any historical truth. Just like asking whether the Meiji Restoration was "bourgeois" or "autocratic," what he is saying is no more than an expression of a passing thought or an impression. If he seriously intended to prove his hypothesis, it would require an enormous amount of work and energy. Because he would have to substantiate, based on a convincing analytical method and objective data, the claims that "peace and democracy" have completely changed the pattern and mechanism of Japan's economic development and that they have also produced major changes in economic and industrial structures.

### 3. Japan's Experience and Growth of Developing Countries

#### Japan's Economic Development

In the process of the deepening corroborative research centered around the Hitotsubashi University group, new facts which had been left unexplained previously have been uncovered, one after another. There are factual discoveries backed by quantitative supporting data. Among them, I wish to point out in conjunction with this article the following ones in particular:

(1) In the early Meiji or the beginning period of the modern economic growth, Japan's productivity standard (economic standard) was at a very low level compared to that of the West European advanced nations. Specifically, the per capita GNP (in 1965 price) in the 1870's was about \$140.<sup>18</sup> On the other hand, its noneconomic elements, i.e., cultural and social development standard, were at a relatively high level. For example, the educational standard on reading and writing, mathematics, etc.; the standard of traditional technical knowledge; political and organizational abilities of the warrior class; business management ability of the merchant or the warrior class; and so forth--all these are the cases in point.

(2) Throughout the modern economic growth process, Japan achieved a high economic growth rate. During the period of some 80 years from 1887 through 1969, the annual average net GNP growth rate reached as high as about 4 percent.<sup>19</sup>

(3) With the development of economy, a secular acceleration phenomenon occurred in the economic growth rate. To wit: During the upturn phase of the economy, the annual average GNP growth rate rose at an accelerating pace from 3.2 percent (1887 to 1897) to 3.4 percent (1904 to 1910), to 5 percent (1930 to 1938), and to 9.9 percent (1930 to 1969). Also, business fluctuation (long wave) with a cycle of about 20 years occurred almost regularly.<sup>20</sup>

(4) Many reasons can be cited for the high rate of economic growth achieved with secular acceleration. For example, expansion of exports and high savings

rate, cheap and good labor supply, fast technological progress, government leadership, war and other external influences, etc. But, above all, the most important is the growth of investment. The investment rate, too, increased with secular acceleration.

(5) The industrial structure has changed markedly. In the early stage of economic development, the traditional sector (mainly agriculture) played a big role. The modern sector (manufacturing, etc.) either relied on the traditional sector or developed in close conjunction with it. From about the World War I period, the balanced development of the traditional and the modern sectors began deteriorating. The modern sector's share rose and a phenomenal development of heavy industry (rapid industrialization) occurred.

(6) After World War I, Japanese economy reached a turning point. A massive transfer of labor occurred from the traditional sector to the modern sector, resulting in a rising net wage rate for unskilled workers. The balanced growth pattern between the traditional and the modern sectors broke down, bringing in the phase of unbalanced growth pattern. At that phase, a wide differential structure (a dual structure) appeared between agriculture and industry and between small business and big business. The differential was more conspicuous in areas such as labor productivity, wage rate and income level.

(7) After the war, about the mid-1960's, Japan's economy reached yet another new turning point.<sup>21</sup> A transition occurred from labor-surplus economy to labor-shortage economy, producing a situation in which the nonskilled worker's wage level reached a parity with (or an approximation of) the marginal productivity. And the dual structure basically disappeared.

Of these facts,<sup>22</sup> the secular acceleration and the advancement of industrialization merit particular attention. Also, the change from balanced growth to unbalanced growth is important, too. In the background of the high economic growth accompanied by secular acceleration as achieved by Japan, one must point out the low level of productivity at the early stage of modernization.

Generally speaking, there is an advantage for the late-comer countries that start late their modern economic growth, in that they can bring in modern technology, systems and organizations developed by the forerunner nations and can utilize them to promote their own economic growth. I called this "advantage of borrowing."<sup>23</sup> Japan made good use of this advantage of borrowing and succeeded in developing its economy. In such an instance, the wider the gap between the forerunner nation and the late-comer country in terms of productivity level and technological and systems development, the stronger the possibility of an accelerated rate of economic growth for the late-comer country. The secular acceleration phenomenon occurs under such a background.

Then, why did Japan succeed in making good use of the "advantage of borrowing?" In this regard, Professor Okawa points to the presence of highly developed "social abilities" in the beginning stage of Japan's economic development. Specifically, he is referring to the high level of cultural and

social development which I mentioned earlier. In other words, what it means is that in Japan, although its productivity level was low, there were various cultural and social abilities already in a high degree of maturity--sufficiently so that Japan was able to import modern technologies and systems from the Western advanced nations and to have them take root in Japan. Furthermore, these social abilities improved with the progress in modern economic growth and served as the fountainhead of the great technological advancement still to be achieved.

#### Comparative Analysis of Japan and Developing Countries

As the fruit of the CA Project which was undertaken over a long period of time at the International Development Center, new ideas and analytical results have been made public. The analysis is called an "analysis by phase."<sup>25</sup> It is a two-step comparative analysis: the first step is to divide Japan's economic development process into several development phases (may also be considered as stages); the second step is to examine to see which of these Japanese phases a contemporary developing country fits in.

The reason why the analysis by phase is considered effective is that in any given country the growth and structural changes do not follow a uniform and continuous pattern throughout its modern economic growth process, and that, therefore, it stands to reason to assume that the economic development pattern and mechanism are different from phase to phase.<sup>26</sup> Consequently, it does seem logical that, if the entire process of a country's economic development were divided into a number of periods that can be differentiated and characterized in relation to each other, the dynamics of economic development could be seen more clearly.<sup>27</sup>

The concept of phase is a flexible and broad one, which has taken into account the unique characteristics of natural circumstances as well as social and political conditions of a given country.<sup>28</sup> Nevertheless, in making the phase division, the principal point of focus should be to elucidate the phenomenon that the transition from a lower phase to a higher phase is caused by the migration of labor from the traditional sector to the modern sector, which in turn results in a change of mechanics of the economic growth.<sup>29</sup> It is based on this line of thinking that the net wage of the nonskilled worker is chosen as the key index for the phase division. When this wage rate shows a clear and steady upward turn, it is the turning point from one phase to the next.

Now, let me first introduce a summary of the results of Japan's phasic analysis.<sup>30</sup> This summary is drawn by means of studying the results thus far of the corroborative research on Japanese economy.

(1) Japan's economic development can be broadly divided into two main phases: Main Phase I (1885 to 1919) and Main Phase II (1919 to 1965). The year 1919 is the turning point. The year 1965 is another turning point, but for the purpose of studying the economic development (the development process covering from the starting period of the modern economic growth through the period of economic maturity) the scope of analysis covers only through the end of Main Phase II.

During Main Phase I, the modern economic growth started in earnest but the economic center was in the traditional sector (mainly agriculture). The modern sector, meanwhile, depended on the development of the traditional sector and was able to make a gradual development of its own. Entering into Main Phase II, the modern sector made a notable stride and the advancement of industrialization became possible independently of the traditional sector. It was during this process when a massive migration of labor occurred from the traditional sector. It was during this process when a massive migration of labor occurred from the traditional sector to the modern sector. The increasing demand for labor in the modern sector caused the net wage for non-skilled workers to rise and also brought about an alternative mechanism for capital and labor. Further, during this phase investments grew markedly and the economic growth showed a secular upward trend.

(2) It is also possible to subdivide the two major phases by taking into consideration such factors as changes in trade structure. In doing a comparative analysis vis-a-vis developing countries, it is important to analyze these subphases. The period immediately preceding Main Phase I is called Phase 1. This was a preparation period that preceded the full-fledged beginning of the modern economic growth, and it was during this period when the modern unified state was formed and the systems and organizations readied for the modernization to come. The export structure during this phase consisted solely of the traditional sector products (tea, cocoons, raw silk, etc.). The Phase 1 refers to the period from 1868 to 1885.

The Main Phase I is subdivided into Phase 2 (1885 to 1904) and Phase 3 (1904 to 1919). In Phase 2, as was in Phase 1, the exports continued to rely on the traditional sector. The import structure, however, changed: the nondurable goods, which had been imported previously, were produced domestically in sufficient volume to meet the needs. This was the first imports substitution process. In Japan, due to the historical peculiarity of having had to change over from the closed-door feudal system, the domestic demand for industrial goods had not yet developed then. Consequently, the traditionality was very strong in the consumption structure, which tended to make the first imports substitution process less than conspicuous. Also, throughout Phase 2 the agricultural productivity rose on a sustained basis and self-sufficiency in food was achieved. Entering into Phase 3, the traditional export structure began to change into a structure of exporting modern nondurable goods (the first exports substitution). The main feature of the change was exportation of textiles. In the latter part of this phase, a phenomenon of increased food importation occurred.

Included in Main Phase II are the periods before and after World War II, but the entire period is lumped together under Phase 4. The reason is based on the perception that there are no basic differences in the economic development pattern and mechanism of before and after the war. Of this phase, the first half was characterized by the second imports substitution, and the second half was noteworthy for the occurrence of the second exports substitution. In other words, alternation of import and export involving durable goods and capital goods (machinery, etc.) forged ahead. Also, the upward trend in food import became increasingly prominent.

Following the analysis by phase of Japan's economic development, the CA Project attempted a comparative analysis by phase of Japan and the developing countries.<sup>31</sup> The results included, among other things, the following classification of the Asian countries by phase: Bangladesh and Burma were designated as Phase 1 countries; India, Sri Lanka, Pakistan and Indonesia as Phase 2 countries; Thailand, the Philippines and Malaysia as Phase 3 countries; and the ROK, Taiwan and Singapore as Phase 4 countries.

What are the implications of the results of this analysis by phase? The way I see it, the implications can be reduced to this: the results provide general answers to the question of how the developing countries could apply and utilize Japan's experience toward realization of their own economic development. Since the answers are strictly "general" in nature, inevitably there will be exceptions. Then, what are the general answers?

In the case of those developing countries that are in Phase 1, for example, they must above all prepare themselves well so that they can begin to make modern economic growth. In that situation, the higher their level of social abilities, the better. For the developing countries of this category, an early and rapid economic growth is impossible. Therefore, there is little for them to learn from Japanese economy after World War II; rather, the point of lesson for them would be found in the manner Japan was able to get its modern economic growth started in the early Meiji period. In the case of a country that has arrived at the Phase 4, on the other hand, acceleration of its economic growth is likely to cause major changes in its economic structure. Presumably a balanced development of its traditional and modern sectors would become difficult and a differential structure (a dual structure) would become more prominent. The disparity in income distribution may become worse. Progress in industrialization would be accompanied by worsening difficulties in areas such as the small business problem, the urban area problem and the environmental damages. How to overcome these problems and stay on a sustained high level of economic growth--this, I believe, is the biggest task facing a country standing in Phase 4.

Not all lessons, which a developing country may be able to learn from Japan's experience in one phase or another, are necessarily positive in nature. What measure should a country take in order not to repeat a certain experience of Japan (the differential structure, for example)--such a lesson of negative nature will prove just as useful.

#### 4. Significance of Corroborative Research

Is the comparative analysis by phase as described above a pointless exercise? Can one think of another more effective analysis? The more pioneering the research is, the more natural it is that there are criticisms against it.

By way of one such criticism, the difference in historical circumstances can be pointed out between the Japan of the mid- to late 19th century and the developing countries of late. It is not fair to disregard the historical differences between the developing countries, who had long been under a colonial domination, and Japan, a country that was able on its own to evolve



from feudalism to capitalism. This notwithstanding, I believe that the late-comer country's development mechanism as was experienced by Japan is basically applicable to many of the developing countries. The "advantage of borrowing" is an advantage that exists universally among the developing countries. The question is whether or not a country can utilize this advantage in shaping its own development pattern and mechanism a la Japanese model. Those countries in Phase 4 and are referred to as "NIC's" [newly industrialized countries] have utilized the advantage of borrowing and succeeded in achieving high economic development. Nearly all the countries that seemingly have reached Phase 4, including certain Latin-American nations, have experienced long colonial rule. Therefore, it does not make sense to place excessive emphasis on the political and historical peculiarities of the period before the modern economic growth and to support the view rejecting the applicability of the Japanese-model development pattern and mechanism to the developing countries.

Would Professor Chu still charge that the analysis by phase is a quantitative analysis and a study rooted in the viewpoint which supports the "continuity" of history? Would he also charge that to do an analysis by phase of Japanese economy without differentiating the period of "militarism" from the period of "democracy" and to apply the same to the developing countries is to legitimize the "militarism?"

Needless to say that all of us researchers must differentiate what is "Sein" and what should be "Sollen" in the handling of our research work. What is and what should be are two entirely different things. The significance of a corroborative analysis on history lies in its uncovering of historical truths and universal historical rules. In other words, it is to uncover "what is." To do this, a universal analytical framework, objective data and a good analytical method are indispensable.

Professor Okawa has made it a regular practice to uncover objective truths about economic development by always presenting operational analysis and quantitative supporting data. In doing so, he has strived time and time again to corroborate even the "qualitative" elements by means of a "quantitative" analysis to the extent possible. It is my understanding that the underlying factor behind all this has been his perception that the more operational the analysis is, the higher the objectivity as well as the universality of facts would be in terms of their applicability to other countries.

The more universal the objective truths of the economic development, the closer they come to the "universal historical rule." Be it an economy of "militarism" or of "democracy," to uncover the universally existing development pattern and mechanism has been Professor Okawa's interest as well as his major work.

At the risk of being repetitive, I say that Professor Chu must, if he wants to insist that decisive changes occurred in Japanese economy before and after the war, corroborate this by means of a convincing method. He must prove that the development pattern and mechanism of Japanese economy changed fundamentally before and after 1945, and also prove that the emergence of "peace and democracy" led to a complete change of economic structure.

It is possible to suggest one constructive research theme. If Professor Chu considers the peace constitution and the democratic reforms as the decisive factors for the postwar prosperity, it may be possible for him to verify it by means of the following method.

I suggest he ask himself a hypothetical question: "If the three major democratic reforms had not been carried out, what would have happened to the subsequent economy and how would the economic growth have turned out?" And then he should try to examine the question statistically. Such an effort might illuminate, with quantitative supporting data, to what extent events such as the agrarian reform, the dissolution of zaibatsu and the fostering of labor unions contributed to the economic development. In fact, at one time an analytical attempt was made to see what would have happened to Japan's economic development of later years had the population increase rate of Japan since the Meiji period been as high as that of contemporary developing countries<sup>32</sup> (analysis of this kind is called counterfactual analysis).

Having said that, I do not believe that such an analysis will prove Professor Chu's views right. Japan's high postwar economic growth should be viewed as the achievement which resulted from the combination of the secular acceleration mechanism that had continued to exist from the prewar years and the various factors unique to the postwar period. Of course the postwar unique factors include the three democratic major reforms. The key to this question is the objective fact that, until it caught up with the productivity and technological level of the Western advanced nations (i.e., until the 1960's), not only did Japan make the most of the "advantage of borrowing" but it also strove for increased investments and exports, all of which enabled it to achieve economic growth at an accelerated pace. It is impossible to explain this secular acceleration phenomenon only on the basis of the postwar unique factors.

Personally, I feel no less strongly than does Professor Chu about the importance and the necessity of "peace and democracy." But this is a matter of individual sense of value or a question of "what should be." Every time I visit a developing country, I imagine how important "peace and democracy" are and how many poor people could be helped by "fair distribution." Nevertheless, when it comes to such hypothetical questions as "when 'peace and democracy' are on hand, will it really lead to economic prosperity?" or "Is 'fair distribution' compatible with high economic growth?" these have nothing to do with the universal truths that have already been corroborated. To insist on an unverified hypothesis--no matter how desirable it may be subjectively--as if it were a historical truth cannot be considered as a posture worthy of a corroborative researcher.

Of Professor Chu's subjective historical perceptions, I personally find one thing which weighs on my mind. The professor glorifies postwar Japan for having transformed itself into a society of "peace and democracy" from its prewar "totalitarian and aggressive" stance. My own subjective impression is quite different from it. To be sure Japan has become "peace and democracy"-oriented and may no longer be a "politically aggressive nation" like it was

before the war. But is it not true that Japan has often been criticized of being an "economically aggressive nation" by both domestic and foreign quarters? How can a country be glorified to that extent when its economic constitution is such that no sooner an antipollution movement occurs domestically than the polluting industries try to relocate themselves to the developing countries in order to keep on making money? If I may venture to use some words borrowed from the Marxist economic phraseology, it seems to me that no fundamental changes have occurred, either before or after the war, to Japan's posture of "imperialistic overseas aggression" in pursuit of "capital profit," but I stand to be corrected on this.

Also, is it not true that within the country the "conservative reactionary faction" has been resorting to various means in order to oppress and suppress the "anti-establishmentarians" who seek peace, freedom and equality for man? For instance, I have heard that an "anti-establishmentarian" youth who feels strongly about the necessity of "a social reform" will find it difficult to become a teacher no matter how enthusiastic he may be about education. It is said that he will be subjected to an ideological check by the education committee and the road to the teaching profession will be closed off to him. This kind of "conservative reactionism" has become increasingly extreme lately as evident in the recent "textbook issue." It is probably not incorrect to say that a man who worships the Emperor and cherishes, the Rising Sun spirit" is the image of the kind of man being sought by the postwar power holders. The substance of the "postwar democracy," which Professor Chu speaks of in the highest terms of praise, does not seem--no matter how I look at it--like anything so wonderful that it deserves an unqualified appraisal. I shall be happy if this subjective judgment of mine turns out to be off the mark and nothing more than a sheer prejudice or misunderstanding.

Finally, I wish to say a few closing words about the task for future research.

The "analysis by phase" cannot yet be viewed as a wholly accomplished corroborative research. Rather, it is hoped that the concept be illuminated further in the days ahead by taking into account many criticisms and comments and that the comparative research concerning the developing countries be deepened. Also, the concept of "social ability" as presented by Professor Okawa is yet to be thoroughly substantiated as there are many unclear elements still remaining. Actually, the question is an extremely difficult one--the question as to what kind of analytical framework and method and what sort of data can be used to possibly obtain an objective elucidation of the facts about things such as knowledge level, systems, organizations and man's behavior pattern. A descriptive analytical attempt using fragmentary data is unlikely to produce results that are objective and universal in character. How, then, can this difficult question be overcome? It is my intention to somehow continue to tackle this large and difficult task by making continued efforts at a slow but steady pace.

# FOOTNOTES

1. "Choki Keizai Tokei Suikei to Bunseki" [Long-Term Economic Statistics: Estimation and Analysis], a 14-vol set, Toyo Keizai Shimpō Sha, 1965-.
2. As representative achievements, the following two works in English may be cited: International Development Center of Japan (IDCJ), "Papers and Proceedings of the Conference on Japan's Historical Development Experience and the Contemporary Developing Countries: Issues for Comparative Analysis," IDCJ, 1978 (Phase I), 1982 (Phase II).
3. SEIKAI KEIZAI HYORON, Sekai Keizai Kenkyū Kyokai, August 1982, p 53.
4. Ibid.
5. "SEKAI ---" op. cit., December 1982, p 51.
6. Ibid.
7. "SEKAI ---" op. cit., August 1982, pp 49-50.
8. Ibid.
9. Ibid., p 53.
10. Ibid.
11. K. Ohkawa [Okawa], "Keizai Hatten To Nihon No Keiken" [Economic Development and Japan's Experience], Daimeido, 1976.
12. "SEKAI ---" op. cit., December 1982, pp 46-50.
13. K. Ohkawa [Okawa] and H. Rosovsky [sic; Rosovsky], "A Century of Japanese Economic Growth" in "The State and Economic Enterprise in Modern Japan" edited by W. Lockwood, Princeton, Princeton University Press, 1965.
14. "SEKAI ---" op. cit., December 1982, p 47.
15. Representative works by Koza-ha include: M. Yamada, "Nihon Shihonshugi Bunseki" [Analysis of Japanese Capitalism], Iwanami Shoten, 1934; E. Noro, "Nihon Shihonshugi Hattatsu Shi" [History of Development of Japanese Capitalism], Tetto Shoin, 1930. Representative works by Rono-ha include: I. Mukasata, "Nihon Shihonshugi-no Shomondai" [Issues in Japanese Capitalism], Ikusei Sha, 1937; N. Tsuchiya, "Nihon Shihonshugi-Shi Ronshu" [Collection of Essays on History of Japanese Capitalism], Ikusei Sha, 1937.
16. It was Mr Arisawa who first presented the theme of "dual structure theory" which was developed actively by both the Marxist economists and the modern economists in the postwar period.

17. T. Hayasaka and K. Masamura, "Sengo Nippon-no Keizaigaku" [Postwar Japan's Economics], Nihon Keizai Shimbun Sha, 1974, p 116.
18. IDCJ's "Papers ---" op. cit., 1978 (Phase I), p 27.
19. "Choki ---" op. cit., Vol 1 "Kokumin Shotoku" [National Income], Section 1.
20. Ibid.
21. Professor Minami does not acknowledge the post-World War I turning point and this is a point of controversy. Regarding the controversy over the turning point, see Chapter 9 of the book by R. Minami, "Nihon-no Keizai Hatten" [Japan's Economic Development], Toyo Keizai Shimpō Sha, 1981.
22. As the works summarizing the characteristics of Japan's economic development, let me cite the aforementioned book by Minami and the following thesis of mine: "Dualistic Economic Development in Japan: A Guide to the Study of the Japanese Economy," Griffith Asian Papers, No 6, Australia, Griffith University, 1982.
23. See my thesis cited above. Also, Gerschenkron is pointing out how useful "Borrowed Technology" is in the progress of the developing countries. A. Gerschenkron, "Economic Backwardness in Historical Perspective: A Book of Essays," Harvard University Press, 1962.
24. K. Okawa and H. Rosovsky, "Nihon-no Keizai Seicho: 20-Seiki niokeru Sukasoku" [Japan's Economic Development: Secular Acceleration in the 20th Century], Toyo Keizai Shimpō Sha, 1973, Chapter 9.
25. The results of the analysis by phase are presented in detail in the "Report of the Survey Commissioned by the Economic Planning Agency," 1981, 1982, 1983. The most concise and easiest to understand is: "Survey Commissioned by the Economic Planning Agency: The Basic Survey (summary) for the Planning of the Basic Policy of Economic Cooperation on the Basis of Japan's Economic Development Experience," IDCJ, 1982.
26. "Survey ---" op. cit., p 8.
27. Ibid.
28. Ibid.
29. Ibid.
30. Ibid., pp 3-10.
31. Ibid., p 14 has the classification by phase of the developing countries.
32. A.C. Kelly and J.G. Williamson, "Lessons From Japanese Development: An Analytical Economic History," University of Chicago Press, 1974, Chapters 5 and 8.

## ECONOMIC

### JAPAN-CHINA FUTURE JOINT TRADE COOPERATION DISCUSSED

Tokyo DAIYAMONDO in Japanese 6 Aug 83 pp 99-108

/Text/ Chinese Economy: Excessive Investment Feared: Foreign Exchange Reserve Swollen

At the First Session of the Sixth All China People's Congress (1983-87), held in June of this year, Premier Zhao Ziyang reviewed the economic performance for the 5-year period of the Fifth All China People's Congress (1978-82). He proudly said that as a result of the spectacular success of the economic adjustment policy enforced since 1979, the Chinese economy has shown a sustained growth and its foreign trade had expanded rapidly while the world economy has been engulfed in a recession and the international market has dwindled. He stressed that such success was a testimony to the superiority of the socialist economic system and to the correctness of the open door policy of this period.

The rate of economic growth jumped in 1982 from the low point of 1981, and much improvement has been seen in the inflation, the fiscal deficit and the unemployment rates since 1981. As far as the fiscal deficit was concerned, the level of actual improvement was not as good as the figures shown on the separate table, since the red figures which were made public did not include the national debt and foreign loans. Nevertheless, it is true that considerable improvement has been made.

As compared with many developing countries, the most unusual aspect of the improvement lies in the international balance of payments. Until 1980, the balance of trade was very much in the red, due in large part to the importation of plants following the signing of a large number of contracts in 1978 and 1979. But through continuing efforts for export expansion, and through import restrictions which have been in effect since 1981, China was able to record black in the balance of trade by as much as 5.66 billion yuan (\$3 billion) in 1982.

As a result, China's foreign exchange reserve reached \$11.1 billion by the end of 1982, the seventh highest in the world, and it has continued to expand. It was \$12.4 billion as of the end of March this year.

With the backing of the swollen foreign exchange reserve, China has emerged as a lender of foreign currency funds in the international monetary market, and has been doing so since the second half of 1981. At the end of 1982 China's

accounts with the member commercial banks of the BIS (Bank for International Settlements) showed that her liabilities amounted to \$1.2 billion, as opposed to her credit of \$7.8 billion with a credit balance of \$6.6 billion. In addition, China's investment balance in Hong Kong was said to have reached \$3.5 billion in the fall of 1982.

Because China has come to lend more money than she borrows, she receives more than she pays for interests. This was a significant enough development to be reported even to the All China People's Congress at the end of last year. The debt repayment ratio, which is often used to determine the financial status of those countries whose cumulative foreign debts are high, is of course not applicable in China's case; nevertheless, if we look at China's ratio of 1982, the principal and interest repayment amounted to \$.96 billion yuan (\$2.6 billion), as opposed to \$1.43 billion yuan (\$21.9 billion), which was the amount from exports. Therefore, the ratio is 12 percent.

This amount of repayment was way above the original plan due to advance payments. In view of the fact that it has become a common practice of the developing countries to receive deferment for their cumulative debt payment, it could be said that the status of China's foreign exchange fund is in a very healthy position.

Table 1  
中国の主要経済指標 (1)  
(歳入に占める赤字の割合を除いて対前年増減率%)

	1978	'79	'80	'81	(2) '82 計画	(3) '82 実績	(4) '83 計画	(5) '83 上期 実績
(6) 国民所得	12.0	6.3	9.2	3.0	—	7.4	—	—
(7) 工業総生産額	12.3	8.5	7.2	4.5	4	8.7	4	—
(8) 工業総生産額	13.5	8.5	8.7	4.1	4	7.7	4	8.8
(9) 重工業生産額	—	7.7	1.4	▲4.7	1	9.9	3.9	12.2
(10) 軽工業生産額	—	9.6	18.4	14.1	7	5.7	4.1	5.4
(11) 農業総生産額	8.9	8.6	2.7	5.7	4	11.0	4	—
(12) 歳入に占める赤字の割合	—	15.5	11.7	2.3	—	2.6	2.4	—
(13) 設備投資	31.6	4.2	7.9	▲17.8	0.5	25.3	▲8.6	—
(14) 小売物価上昇率	0.7	2.0	6.0	2.4	—	1.9	—	—
(15) 未就業者率	5.3	5.5	3.6	2.6	—	2.6	—	—

Table 2  
中国の貿易収支・外貨準備高

	1978	'79	'80	'81	'82	(1) '83 (計画)
(2) 貿易収支 億元	▲19.7	▲31.2	▲27.6	▲0.1	56.6	▲29
(3) 外貨準備高(年末) 億元	15.57	21.54	22.62	47.73	111.25	124.08 (3月末)
(4) BIS加盟国商業銀行 に対する債権残高(年末) 億元	14.90	5.36	3.02	31.68	66.44	(5)

Table 1: China's Principal Economic Index

Key:

1. The rate of increase/decrease as compared with that of previous year excluding the ratio of deficit to revenue percentage.
2. Plan
3. Showing
4. Plan

Key: (continued)

5. Showing of the first half
6. National income
7. Industrial and agricultural gross output
8. Industrial gross output
9. Heavy industry output
10. Light industry output
11. Agricultural gross output
12. The ratio of deficit to revenue
13. Facility investment
14. Rate of increasing of retail price
15. Rate of unemployment

Table 2: China's Balance of Trade: Foreign Exchange Reserve

Key:

1. Plan
2. Balance of trade (100 million yuan)
3. Foreign exchange reserve (\$100 million)
4. Credit balance to commercial banks of the BIS member nations (end of year) (\$100 million)
5. End of March

The present level of China's foreign exchange reserve is equivalent to the 8-month portion of the 1982 imports. This is far above the usual level of a 3-month portion. But perhaps it may be too slight in view of the volume of capital that China potentially needs, as it is reported that China needs between \$30 and 40 billion for the development of petroleum and coal alone in the 1980's.

But, since the second half of last year, China has departed from the way she has handled the importation of plants and foreign technology since 1978. The foreign currency spending for the construction of the same type of plant as the one built previously has been cut to about one-tenth of the amount spent before, as a result of the new policy of "buy one and cooperate three," which will be elaborated on later. Although China's signing of import agreements with foreign countries has steadily increased since the second half of last year, her foreign exchange reserve is unlikely to drop quickly, as long as China maintains the policy of economizing her foreign exchange reserve as previously discussed.

#### Unplanned Projects Controlled

It does not, however, mean that China's economy is sailing smoothly in every aspect. There is a possibility that the potential dangers which have often been pointed out--financial deficit, fund shortage for the priority construction projects, inflation and impasses in energy and transportation developments--may actually surface in the economy, which has been improving since 1982. A concern about excessive investment has often been expressed since early this year. Some even argue that a new economic adjustment will be necessary if facility investments cannot be restrained.



The rate of economic growth (the rate of increase of the national income) in 1982 was as high as 7.4 percent. The main reasons for such growth were attributed to good agricultural production beyond expectations and to large-scale expansion of heavy industrial production, accompanied by the rapid increase of facility investments. The problem lies in the fact that facility investments exceeded the planned target by 25 percent.

Three times in the past, the amount of investments has surpassed that of the previous year by over 10 billion yuan. These increases occurred during the "Great Leap" of 1958, the "New Leap" of 1970 and the "Overseas Leap" of 1978. Drastic economic adjustments were required, following the investment increases in 1958 and 1978.

In the case of 1982, the rate of increase over the preceding year was not so high as those three cases cited above; however, in terms of its absolute amount, the increase of investments was way over 10 billion yuan. The investment spending of the central government was only slightly above the plan, but facility investments by the local governments and the private enterprises, using their own funds or bank loans far exceeded the plan.

When investments become excessive, problems develop in many areas. Often unplanned projects overshadow the planned ones or general construction projects obscure priority construction projects. Its effects on capital, materials and work capacity of the priority construction projects such as energy and transportation are particularly considerable.

With the excessive investment in facilities, heavy industry production has recovered rapidly. The heavy industry increased by 9.9 percent as compared with the planned target of the preceding year, which was only 1 percent. Thus, the rate of increase was above that of light industry.

As a result, the supplies of energy and raw materials have become tight and the transportation capacity has also become inadequate. If such conditions continue, another soaring inflation will be inevitable.

Furthermore, although there was no direct relationship with excess investments, neither has there been a noticeable result in the area of economic efficiency improvement, stressed since 1982, nor has there been any improvement in their old attitude of pursuing quantity over quality. Because of unsatisfactory economic efficiency and because of the dispersion of capital, the financial revenue increase has not been great, despite the fact that production has increased.

The problems seen in 1982 as cited above, have not been resolved so far this year. The question of how to control the facility investment has become an urgent issue confronting China.

## Deng Regime

### Stabilization and Rectification

#### Deng Supported

Regarding the sales of the "Selected Works of Deng Xiaoping" (1975-82), compiled by the Document Compilation Committee of the Central Committee of the Chinese Communist Party, since 1 July, and the sales campaign for cricket cages, it seems that the Deng Xiaoping system is making headway toward stability. Even Li Desheng, who was once regarded as the champion of the military's interest, contributed an article to the 4 July issue of the PEOPLE'S DAILY, commending the publication of the "Selected Works of Deng Xiaoping." Again, this is evidence of the military's support of Deng Xiaoping. Regarding the top leadership changes on the local party, government and military levels (provinces, cities and autonomous regions) as well as on the national level, the so-called "Deng Xiaoping mafia" is ever more dominant in the scene.

There are, of course, some negative facts behind the Deng Xiaoping system, which is viewed as an accomplished fact of a general trend. Would Deng Xiaoping be emerging as a new Mao in China without Mao? The answer would be no. First of all, it is needless to say that Deng Xiaoping lacks the kind of charisma that Mao had. In Max Weberian terms, possessing charisma has only negative implications for Chinese society, which is being transformed from a charismatic control structure to a legalistic structure.

That "Uncle Deng will improve our standard of living" is perhaps the general view of the people, especially for those farmers whose cash income has increased remarkably as a result of the individual family production contract system. Deng Xiaoping and his economic policies must be directly appealing to their realistic profit interests.

#### Inflation and Living Standard

Accordingly, the success or failure of various future economic policies will determine the question of whether the actual living standard of the masses will keep rising as they expect.

According to the recent news from Peking, since the 3rd Plenum of the 11th Party Congress of the Chinese Communist Party, which was held at the end of 1978, wage increases have been about 10 percent, but, reportedly, the people in general somehow felt that prices soared by as much as 40 percent. The figures, which were made public by the National Statistical Bureau of the Central Government, showed that the inflationary rate was held under the one-digit mark. There must have been, however, a considerable discrepancy between what the government told and the actual inflationary pressure felt by the people.

The latest economic policy which has replaced the previous one of egalitarian opportunity--the motto of which was "being poor is not deplored but being unequal is lamented"--is causing the widening income differences between the classes of people. In the suburban farm areas which have relatively favorable conditions,

"10,000-dollar families" have been appearing, each of whose annual income is far above 10,000 yuan (1 yuan = 130 yen). Their newly-built houses are by no means inferior to the ready-built houses in Japan.

These scenes, which have been reported with pictures throughout the country, give the city dwellers who see these pictures mixed feelings about such developments.

Furthermore, in the present society of China, connections ("drawing relations with someone") and nepotism ("through the back door") take precedence over rational decision in every situation. That is why papers such as the PEOPLE'S DAILY cry out for the eradication of bureaucratism. Because some find money and services inaccessible, there is no guarantee that cleavages would not develop in the future between the capital and the provinces, urban areas and rural areas, and the military and others.

To counter such development, the Deng Government launched a new rectification movement, that is, a consciousness reform movement, beginning this fall. Its future is noteworthy.

Activation of economy is indispensable to the much emphasized improvement of the people's livelihood.

Importing capital, equipment and technology from overseas for the purpose of improving the people's lives presupposes the maintenance of stable and friendly relations with foreign countries. There is a strong feeling within the present leadership that it will be difficult for them to deny the improvement of people's livelihoods on account of ideological importance. So long as problems do not develop in the economic progress as discussed earlier, it may very well be said that the present Deng Xiaoping system is stable.

European and American Inroads

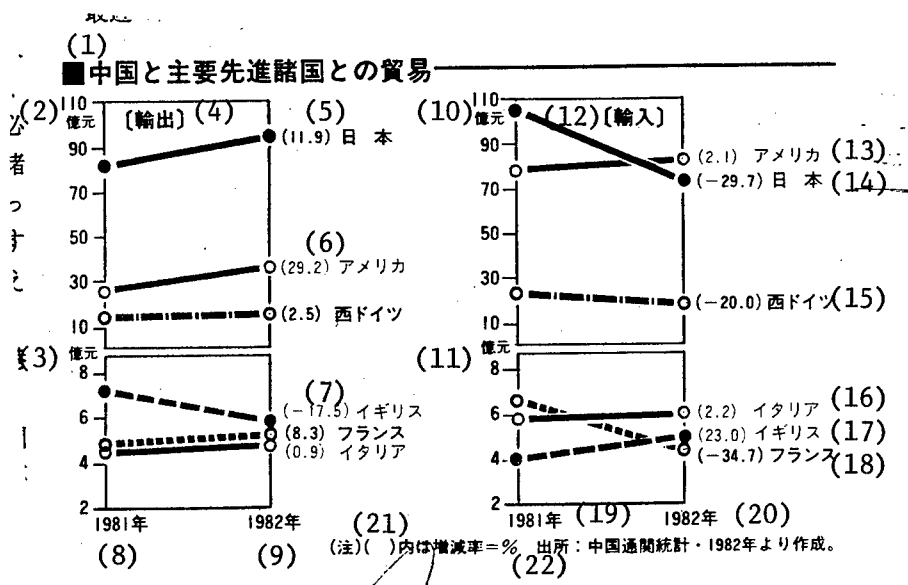
Japan Needs to Cooperate

China's Love Call

For the economic construction for which China is now going all out, the importation of technology from Europe and America is indispensable. Whenever China faces a difficulty, it stresses the importance of the open door policy toward foreign countries. This is, so to speak, China's love call to the technology of the European countries and America. Furthermore, China has shown unusual zeal for inducing foreign capital in the form of joint ventures. In this way, China places ever rising hope on these countries of Europe and America, which possess advanced technology and money.

Chen Muhua, the external economic and trade minister, who visited Europe earlier, emphasized at every stop the importance of technology, foreign capital and the improvement of ties with European countries. Here again, we can see how high China's expectations are for the countries of Europe and America.

But, on the other hand, since it is a fact that there exist some factors of instability, such as the unresolved questions facing China and Great Britain on the unsettled status of the Hong Kong lease and between China and France on the differences of opinion on Indochina, a concern has been expressed that these problems might have repercussions on economic and trade relations.



Key:

- |                                                       |                                                             |
|-------------------------------------------------------|-------------------------------------------------------------|
| 1. Trade between China and Principal Advanced Nations | 12. Imports                                                 |
| 2. 100 million yuan                                   | 13. United States                                           |
| 3. 100 million yuan                                   | 14. Japan                                                   |
| 4. Exports                                            | 15. West Germany                                            |
| 5. Japan                                              | 16. Italy                                                   |
| 6. West Germany                                       | 17. United Kingdom                                          |
| 7. France                                             | 18. France                                                  |
| 8. Year                                               | 19. Year                                                    |
| 9. Year                                               | 20. Year                                                    |
| 10. 100 million yuan                                  | 21. Note: ( ) shows rate of increase/decrease = %           |
| 11. 100 million yuan                                  | 22. Source: Compiled from the 1982 China Customs Statistics |

Although there are some outstanding questions like the textile negotiations between the United States and China, the prospect for economic and trade relations is somewhat bright since the United States is expected to relax its restrictions on technology exports to China soon. Since there are many American technology-related enterprises interested in trading with China, the relaxation of the trade restrictions would affect the Sino-American economic and trade relations considerably. On the other hand, the Taiwan question is still a stumbling block in the progress of Sino-American relations, and the reopening of the Pan American Airway's route to Taiwan and the weapons sale to Taiwan met China's protest. Accordingly, such events might affect their economic and trade relations greatly.

## Competition Intensifies

Looking at the recent developments between the United States and China, American Motors and the Peking Automobile Manufacturing Plant signed a joint venture agreement for the production of jeeps. In Amoy, the Reynolds Company signed an agreement for the construction of a tobacco plant, which is to be jointly operated. The China Technology Imports Company has placed orders with the Honeywell Company for \$15 million worth of microcomputers and terminals. The McDonnell Douglas Company exported passenger jets to China for the first time.

The British Petroleum Company and others have signed a contract with the China Ocean Petroleum Company for the joint exploration and development of petroleum resources in the South China Sea and an area in the southern Yellow Sea. In the case of West Germany, the Rhinebraun Consulting Company has received an order for a coal mining development project. As for France, the Peugeot Company signed a sales contract with the China Machine Exports and Import Company for 150 luxury cars.

Although the items cited above are only a few of the examples, one can see a part of the picture of China's economic and trade relations with the countries of Europe and America.

For the past few years, the countries of Europe and America have begun to view China anew, as a nation with whom they can undertake joint ventures, a country whose resources are to be developed and a country with whom they can cooperate in economic and technological fields. To put it in another way, China's open door policy toward foreign countries has made much headway, and its economy has become deeply involved with the economic systems of the advanced nations of the West.

To China, Japan is not only the biggest trading partner but is also one step ahead of the European countries and America in economic cooperation with China. But at this time, when China and the countries of Europe and America are about to move forward to improve their relationships, with some problems still outstanding, it is likely that Japan's competitive relationship with Europe and America in China will become more intense than ever before. Unless Japan involves itself more actively in the Sino-Japanese joint ventures or in China's priority projects such as technical cooperation for the improvement of the existing enterprises in which China places much hope in Japan, Japan's competitive edge in China would be lost to European countries and the United States. At the same time, in the projects like resource developments which require enormous amounts of capital, Japan would do well if she cooperates actively with European nations and the United States.

## Export to China

## Unplanned Business Negotiations

## Massive Excess Imports Expected

China anticipates a massive import excess in trade from 1983 on under the Sixth Economic Plan. It is because China is attempting to expand the import of material and equipment necessary for economic construction.

China forecasts the import excess of \$1.9 billion according to the 1983 plan--\$23.9 billion for imports (a 40.6 percent increase over that of the previous year) and \$22 billion for exports (a 1.9 percent increase over that of previous year). Over \$3.5 billion of import excess have been taken into account in the 1985 economic plan.

In this respect, Japan's exports to China in the first 6 months of 1983 amounted to \$2.1 billion, an increase of 20 percent as compared with the same period of the preceding year. Thus, Japan has been rapidly recovering since the beginning of 1983.

Among the items that Japan exports to China, iron and steel products are especially conspicuous. During the first 6 months of this year, 2.92 million tons of these products were shipped to China, a 2.3-fold increase as compared with the same period of the preceding year. The prospect for this year's total export to China is 6 million tons. In terms of money, the export is expected to be in excess of \$2 billion. Accordingly, China is expected to be the largest market for Japanese iron and steel exports. In terms of proportion, the iron and steel products occupied as much as 50 percent of Japan's export trade with China during the first 6 months of this year.

On the other hand, the exports of machinery and equipment during the first 6 months of this year decreased by as much as 0.4 percent as compared with the same period of the preceding year. But this problem is gradually being straightened out because of progress in the plant export negotiations. The recent talk on the plant export focuses on the medium and small sizes. One special feature to note in the plant imports into China is that a large number of them are, based on the deals with localities, for consumer goods productions, such plants as marine product processing plants, furniture plants, battery plants and the like, for which agreements have already been signed last May. Perhaps this reflects the fact that the reserve of foreign currency which can be used independently by the localities has grown rich and that the priority of development is placed on the improvement of the people's livelihoods.

The exportation of plants and technology will be likely to remain central to Japan in future Sino-Japanese trading. China is attempting to bring about technological improvements for the existing enterprises and to continue to push forward the large-scale priority projects. China has already decided to undertake the second stage construction of the Baoshan Steel Mill and to continue building the petrochemical plants at Daqing, Shandong and Shengli.

Also, through loans from other countries or through the introduction of funds from international financial institutions like the World Bank, China will probably push forward actively to improve the infrastructure such as transportation, communications and newsgathering facilities, which are essential to the Chinese economy. The Chinese Government has already requested to the Japanese Government for the second Yen loan of \$6 billion for the 13 projects including the electrification of the double-track line of the Dadong-Qinhuangdao railway as cited above.

Table: Thirteen Projects for the Second Yen Loan (China's Request)

- Key:
1. Electrification of double track of Dadong-Qinhuangdao railway
  2. Electrification of double track of Xingyang-Guangzhou railway
  3. Electrification of double track of Chengzhou-Baoqi railway
  4. Qinhuangdao harbor coal buses
  5. Qinhuangdao harbor fire trucks
  6. Lianyung Harbor-Miaoling lumber and food container buses
  7. Qingdao Harbor-Bay Coal and miscellaneous good buses
  8. Tianshengjiao Hydroelectric Power Station
  9. Shuikou Hydroelectric Power Station
  10. Dzungar Mining District coal development
  11. Dexing copper development
  12. Shansi Province aluminum plan
  13. Construction of telephone networks of Shanghai, Tianjin and Guangzhou.

China also places emphasis on the construction of plants for the improvement of people's lives and recently has approached Mitsui concerning a 500-million-yen deal for 48 projects.

Emphasis on Software

In the midst of such development, China has begun to bring about a big change in its way of importing plants and technology. At a recent talk, China proposed a so-called "buy one and cooperate three" formula under which China buys technology; but design, production of machinery and the procurement of machinery are jointly undertaken. In other words, China will buy software but furnish the hardware, as much as possible, through domestic production.

Following this formula, last May China and Japan already signed a contract by which China will receive software for an ethylene glycol plant. China intends to maintain this policy henceforth. It is seeking to modernize its industry by importing some facilities and technology necessary for the technical improvement of the existing plants and also by promoting joint ventures. Only recently has China approached Japanese enterprises to get cooperation for the renovation and rationalization of 17 plants. Since China is an important market for the exportation of plants and technology, it will be interesting to note how the Japanese plant industry will respond in the future to the Chinese formula of software import and cooperation.

Hereupon, on the question of exporting high technology, the U.S. Government has changed the status of China to that of quasi-ally last June. Accordingly, the door toward China is now wide open for Japan to export highly advanced technology. The U.S. Government has approved the export of electronic telephone exchange switchboards to China by Hitachi, Ltd. Since then, the Sino-Japanese business talks for the sale of semiconductor manufacturing facilities, computers and communication equipments have suddenly become lively.

But excess investment has become an issue at this point. Accordingly, depending upon how this question is dealt with, it might affect the business negotiations for projects which are outside the plan and outside the priority project category.

#### Joint Venture Projects

#### Preferential Treatment Measure

#### Everything Begins Now

Four years have passed since China has embarked in earnest on the joint ventures with foreign countries after having enacted a joint venture law called the "Sino-Foreign Joint Investment Management and Enterprise Law."

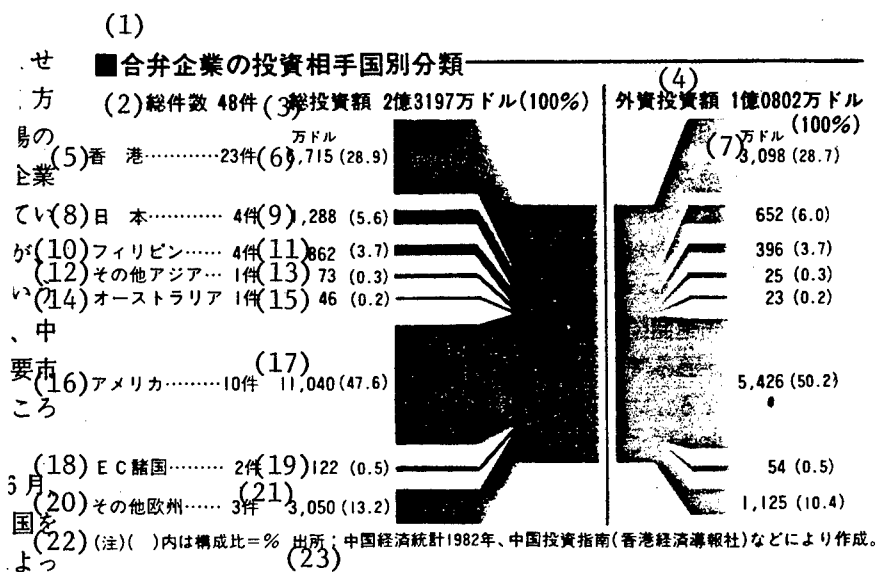
Aiming at the technical improvement of the existing plants, the development of new industry, the export of the merchandise and the learning of modern management and operation know-how, China has sought to promote joint ventures in the field of priority projects such as the textile industry, light industry, building materials industry, medical and pharmaceutical industry, electronics industry, chemical engineering industry for daily necessities, mechanical industry, agriculture, stock farming, cultivation industry and the tourist service industry.

In response to China's inducement policy, foreign enterprises tried fairly actively to actualize the joint projects; however, because of unattractive conditions imposed on the joint ventures, such as the strict export requirements of the projects, their interest in investing in China has been cooling off rapidly since around 1982.

At the end of 1982, the number of joint enterprises in China was 48, and the amount of foreign investment in China reached \$108 million. Of the 48, only 9 joined in 1982. The number of foreign investments for the joint ventures in China includes 23 from Hong Kong, 10 from the United States, only 4 from Japan and others. The categories of the joint ventures vary greatly. Thirty-seven are in industrial areas, 11 are in nonindustrial areas and others are in such areas as machinery, food, chemistry, textile, agriculture, fisheries and the hotel industry.

Everything begins here, so to speak.





Key:

1. Nations Which Invested in the Joint Ventures
2. Total number (of joint ventures)
3. Total investment
4. Foreign currency investment \$108 million 20 thousand
5. Hong Kong
6. Number (of joint ventures)
7. \$10,000
8. Japan
9. Number (of joint ventures)
10. Philippines
11. Number (of joint ventures)
12. Other Asian countries
13. Number (of joint ventures)
14. Australia
15. Number (of joint ventures)
16. United States
17. Number (of joint ventures)
18. E. C. /European Community/ countries
19. Number of (of joint ventures)
20. Other European countries
21. Number (of joint ventures)
22. Note: ( ) shows the ratio = %
23. Source: Compiled from the 1982 China Economic Statistics & China Investment Guide Book (HONG KONG ECONOMIC NEWS)

## Tax Break

Under such circumstances, China has started out to improve the preferential treatment measures for the participants of the joint ventures in order to lift the sagging mood of the foreign investors. On 8 April, Li Hou, spokesman for the National Economic Committee, made it clear at a news conference, which was attended by both domestic and foreign news reporters, that China was prepared to take 7 new preferential treatment measures, which included: (1) the exemption of tariff's on machinery, equipment and materials imported by the joint enterprises and the exemption of business taxes; (2) the relaxation of export requirements; (3) the exemption of income taxes for the first 2 years after counting up the profits and the reduction of income taxes by half in the 3rd year.

Following this announcement, on 17 May, Chi Haiping, deputy finance minister, made it clear that the Chinese Government would take a number of preferential treatment measures in the tax field for the joint ventures. For example, anywhere between 80 percent and 95 percent of the quantities of the imported parts and raw materials will be exempted from the business tax as long as these items are imported for the purpose of exporting the finished products. A series of such measures is expected to go into effect as soon as they are ready. In that event, these measures are expected to yield positive results in promoting the joint ventures. But the question is how to implement these measures. There still remains a number of gray areas: for instance, to what extent and for which products would the relaxed export requirement be applicable.

To facilitate joint ventures in the field of manufacturing industries, on which China places the most hope, China may have to endeavor to dispel the misgivings or worries, one by one, through showing actual examples and, at the same time, through consolidating the related rules and regulations including the patent law, the tax agreement and the investment guarantee agreement. A preliminary agreement has been reached on the Sino-Japanese tax pact. Currently, these two governments are working to clarify the wording used in the present draft. Also as to the Sino-Japanese Investment Guarantee Agreement, talks are in progress, with an eye on the conclusion of this agreement within this year.

With the restructuring of the investment milieu in China, the Sino-Japanese joint ventures are about to enter a new phase.

Hong Kong and Taiwan

Special Region

For Long-Term Harmony

For the past few years, the Chinese Government has been actively taking up the issue of recovering Taiwan. Such an active move began on New Year's Day 1979, when the Chinese Government issued the "Proclamation to the Compatriots in Taiwan" expressing its desire to open a dialogue between Taiwan and the mainland. It also expressed a desire to begin economic and cultural exchanges immediately. Despite the rejection of the invitation by the Taiwanese Government, the trade

between China and Taiwan has expanded rapidly through the importation of Taiwan-made products into China, mainly through Hong Kong. The Chinese Government treated the products of Taiwan as if they were from within the country. China has also experienced a boom in consumer goods imports. These were the developments which contributed to the trade expansion between China and Taiwan.

At present, China is actively inducing business from foreign countries by establishing four special economic districts in Kwangtung and Fukien provinces. These special districts are contiguous to Taiwan, Hong Kong and Macao. The establishment of these special districts may be construed as a ground laying for the smooth takeover of those areas in the future. Another reason might be to suggest China's intention that it would not use force to recover those areas so long as there are no special problems. Japanese business may be well advised to pay attention to the special districts for such reasons.

At the end of September 1981, the chairman of the All People's Congress issued a statement called "Restoration of Taiwan to the Fatherland." The content of the statement recognized a high degree of self-rule in Taiwan; however, the Taiwanese Government rejected this proposal also. Meanwhile, the Chinese Government has decided to restrict imports as a part of the economic adjustment efforts. Since early 1981, importation of durable consumer goods has been strictly restricted; however, the imports from Taiwan were still favorable treated. But since the last part of 1981, China has changed its treatment of the imports from Taiwan. The original tariff rate has been restored to the goods produced by those Taiwanese firms funded by foreign capital. In this way, China's restriction on the imports in general from Taiwan has been in effect down to this date.

The Sino-Japanese or the Sino-European/American relationships were strained from time to time by China's demand for the suspension of the issuance of visas. But the overall turn of events seems to move toward long-term harmony.

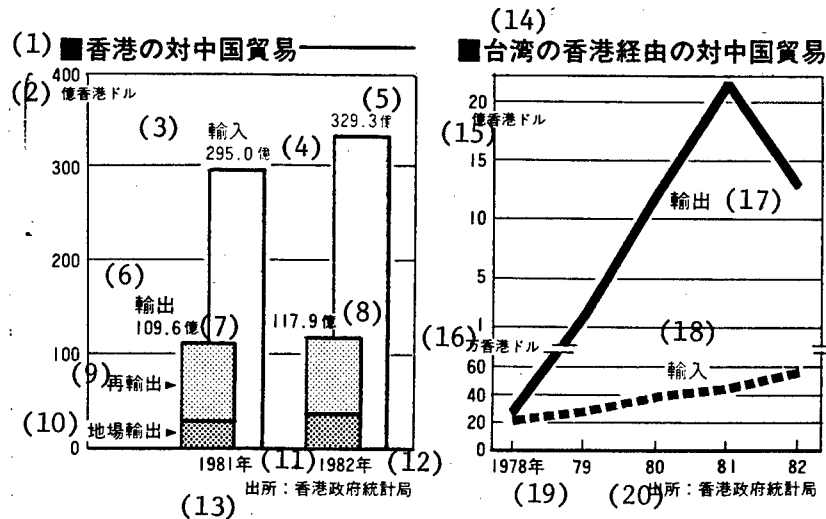
#### Important for Hong Kong

Hong Kong is playing an important role in the present Chinese economy; however, the economy of Hong Kong has been showing irregularities recently.

For China, trade with Hong Kong is more important than ever before. In 1982, Hong Kong occupied first place in China's export trade and third in import trade with the United States and Japan. China's balance of trade has consistently shown large export excesses. In 1982, the excesses amounted to U.S.\$2.11 billion (Hong Kong's statistics). Also, of the foreign countries' investments in China, the portion held by Hong Kong is fairly large. For China, which is striving to achieve the four modernizations, Hong Kong's economic role has become increasingly important year after year.

But in 1982 the Chinese Government made it clear that it had the intention of recovering Hong Kong by 1997. The blueprint of the Chinese Government for the recovery of Hong Kong contained the concept of the special administrative district, which was stipulated in Article 31 of the Constitution, adopted by the All China People's Congress at the end of 1982. Accordingly, upon recovery, the form of

government of Hong Kong would not be too different from that of the previous period (Hong Kong government by the Hong Kong people). To put it more strongly, only the flag would be changed from the Union Jack to the Chinese flag.



Key:

- |                                    |                                                     |
|------------------------------------|-----------------------------------------------------|
| 1. Hong Kong's China Trade         | 11. Year                                            |
| 2. \$100 million Hong Kong dollars | 12. Year                                            |
| 3. Imports                         | 13. Source: Hong Kong Government Statistical Bureau |
| 4. 100 million                     | 14. Taiwan's China Trade via Hong Kong              |
| 5. 100 million                     | 15. 100 million Hong Kong dollars                   |
| 6. Exports                         | 16. 10,000 Hong Kong dollars                        |
| 7. 100 million                     | 17. Exports                                         |
| 8. 100 million                     | 18. Imports                                         |
| 9. Re-export                       | 19. Year                                            |
| 10. Agricultural Export            | 20. Source: Hong Kong Government Statistical Bureau |

It appears that China has switched its policy regarding Hong Kong. China plans to show Taiwan how the special administrative district would actually work after recovering Hong Kong by seizing the chance in 1997 and granting it extensive autonomy. According to the blueprint mentioned earlier, even China seems to believe that the soft yet tough economy of Hong Kong will be likely to experience a confusion immediately following the recovery; however, prosperity will be restored within a few years.

The economy of Hong Kong grew only 2.4 percent in 1982. At present, the world economy is on its way to a recovery, and those conditions which previously helped facilitate a rapid recovery and growth in Hong Kong's economy have been put in order. This is the year to find out to what extent the impact of the 1997 question, experience by Hong Kong from 1982 to 1983, would be lightened. The result should mean much in determining the future course of Hong Kong.

## Sino-Soviet Rapprochement

### Economic Dependence on West

### Culture and Trade Improved

As a reflection of many years of political confrontation between the two countries, the Sino-Soviet trade has been maintained at a low key.

At this time, there is no sign that Sino-Soviet relations are returning to the period of the "one solid sheet of rock" of the 1950's; however, interactions in the economic, trade and cultural fields are still in progress.

Because of the Soviet invasion of Afghanistan in December 1979, the Chinese Foreign Ministry spokesman announced in January 1981 that the Sino-Soviet normalization talks would be indefinitely postponed. Since then, except for the agreement on barter trade, no talks have been held.

In June 1981, the differences between the United States and China on the question of Taiwan came to fore, and China made headway in reviving its relations with the Soviet Union. On 24 March 1982, the late general secretary Brezhnev called for improved relations between China and the Soviet Union in his Tashkent speech. In response, on 26 March, the Chinese Government issued a statement that it would give consideration to the call and watch closely the actual move on the part of the Soviet Union to that end.

Since then, both China and the Soviet Union have made an active and concrete step toward improving relations. On the part of China, at the 12th Plenum of the Party, it downgraded the question of antihegemonism below that of the restoration of Taiwan and deleted her criticism of the Soviet revisionism in the Party Constitution. On the part of the Soviet Union, its leaders often pointed out the importance of normalizing relations with China.

In reaction to the discord with the United States, China agreed unconditionally to hold talks with the Soviet Union at the level of foreign ministers, and they have already held two meetings, one in October 1982 and the other in March 1983. Meanwhile, there were new developments in the economic field between China and the Soviet Union. These included the establishment of a branch office of the Far Eastern Trade Company of the Soviet Union in mid-September 1982 to promote border trade with three northeast provinces of China; the visit to China in December by a Soviet group to tour the silk fabric industry; and the signing of the "Agreement Concerning the Method of Settlements for the Border Trade Between the Two Countries" between the Bank of China and the Foreign Trade Bank of the Soviet Union in December, the first in 20 years.

Only when reconciliation between the Communist parties of China and the Soviet Union is achieved, can normalization of relations between the two countries come about. But the Soviet Union has not taken up even one of the three conditions, which are: (1) Soviet troop reductions along the Sino-Soviet borders and in Mongolia; (2) suspension of military intervention in Afghanistan; and (3) suspension of aid to Vietnam, presented by the Chinese Government for the normalization

of relations with the Soviet Union, on the grounds that the demands were problems for a third party; hence the question of improved relations is confined only to the intergovernmental level.

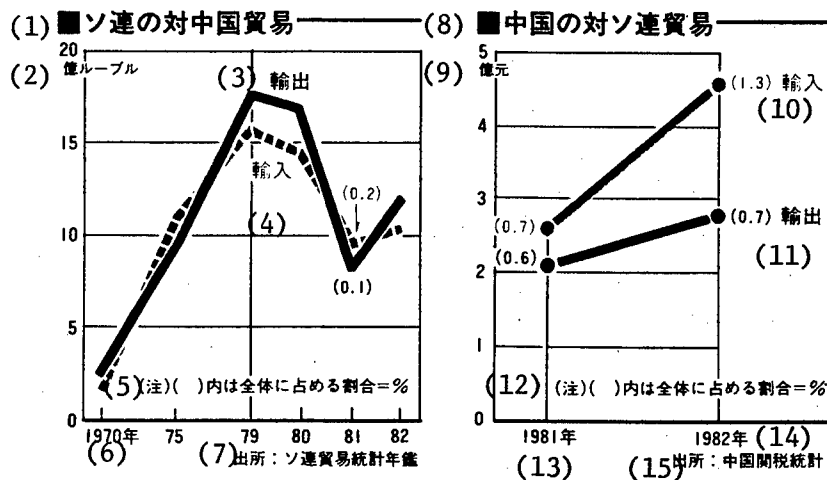
#### Soviet Weak Points

The Sino-Soviet two-way trade in 1982 amounted to about \$320 million. According to Soviet statistics, its degree of dependence on trade with China was merely 0.1 percent of exports and 0.2 percent of imports, while the Chinese statistics showed that its degree of dependence on the Soviet trade was only 0.7 percent of exports and 1.3 percent of imports. According to the 1983 Sino-Soviet Barter Trade Payment Agreement (signed on 10 March), which was negotiated in conjunction with the second Sino-Soviet vice foreign ministers talks, the amount of trade was to reach about \$800 million, 2.5 times as high as that of 1982, and it included the long-term export contract with China for Soviet goods (a period of between 3 and 5 years).

It appears that progress is nearly certain in the border trade. According to the Chinese plan, China is to export miscellaneous goods and vegetables to the Soviet Union from which it is to import items including parts for facilities imported from the Soviet Union in the 1950's.

So long as there are no mutual political accommodations between the governments of China and the Soviet Union, including those three conditions presented by China for normalization, it may take a long time before China's dependence on Soviet trade increases to any significant degree.

On the other hand, China is pushing forward her economic development, but in view of present conditions and the level of technology in Soviet economy and even if the Sino-Soviet rapprochement makes headway, China's dependent relations with the Western nations are likely to continue.



Key:

1. Soviet Union's China Trade
2. 100 million rubles
3. Exports
4. Imports
5. Note: ( ) shows ratio to the whole = %
6. Year
7. Source: "Soviet Trade Statistical Year Book"
8. China's Trade with the Soviet Union
9. 100 million yuan
10. Imports
11. Exports
12. Note: ( ) shows the ratio to the whole = %
13. Year
14. Year
15. Source: China Customs Statistics

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